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Arianespace Is Spurned By European Consortium

Telephone Companies Choose American Firm To Launch New Satellite

By Jacques Neher

International Herald Tribune

PARIS — Plans by Arianespace to introduce a new generation of rocket, the Ariane 5, have been dealt a setback by the Continent's own telephone companies, which have spurned Europe's space consortium and instead entrusted the launching of a new television satellite to an old American Atlas rocket.

The estimated \$100 million order, placed Monday with the commercial launching unit of General Dynamics Corp., angered officials at the 13-member European Space Agency, which has invested \$6.6 billion to develop the Ariane 5 two-stage launcher, set for its maiden flight next year.

The decision by the European Telecommunications Organization, which groups 39 European telephone companies, follows the failure in January of an Ariane 4 in which a Eutelsat satellite and a Turkish telecommunications satellite, were lost at a total cost of \$356 million. The Eutelsat group received an insurance payout of 180 million European Currency Units (\$203 million) after that accident.

Vanessa O'Connor, spokeswoman for the telephone consortium, said it was "finalizing negotiations" with General Dynamics for the launching via an Atlas 2A rocket, of a 16-transponder television satellite, called Hotbird 2, in August 1996. She said the organization picked the American launcher because "Ariane's launch manifest was full."

But an official at Arianespace said that while there were no slots available on Ariane 4 rockets in the August-October time slot required, it offered to launch the satellite on Ariane 5, which was scheduled to make its second post-development flight in October 1996.

"It looks like they don't have confidence in Ariane 5," the official said, speaking on condition of anonymity. "It's surprising to see a European organization that essentially represents European governments deciding against a rocket that was developed and paid for by European governments."

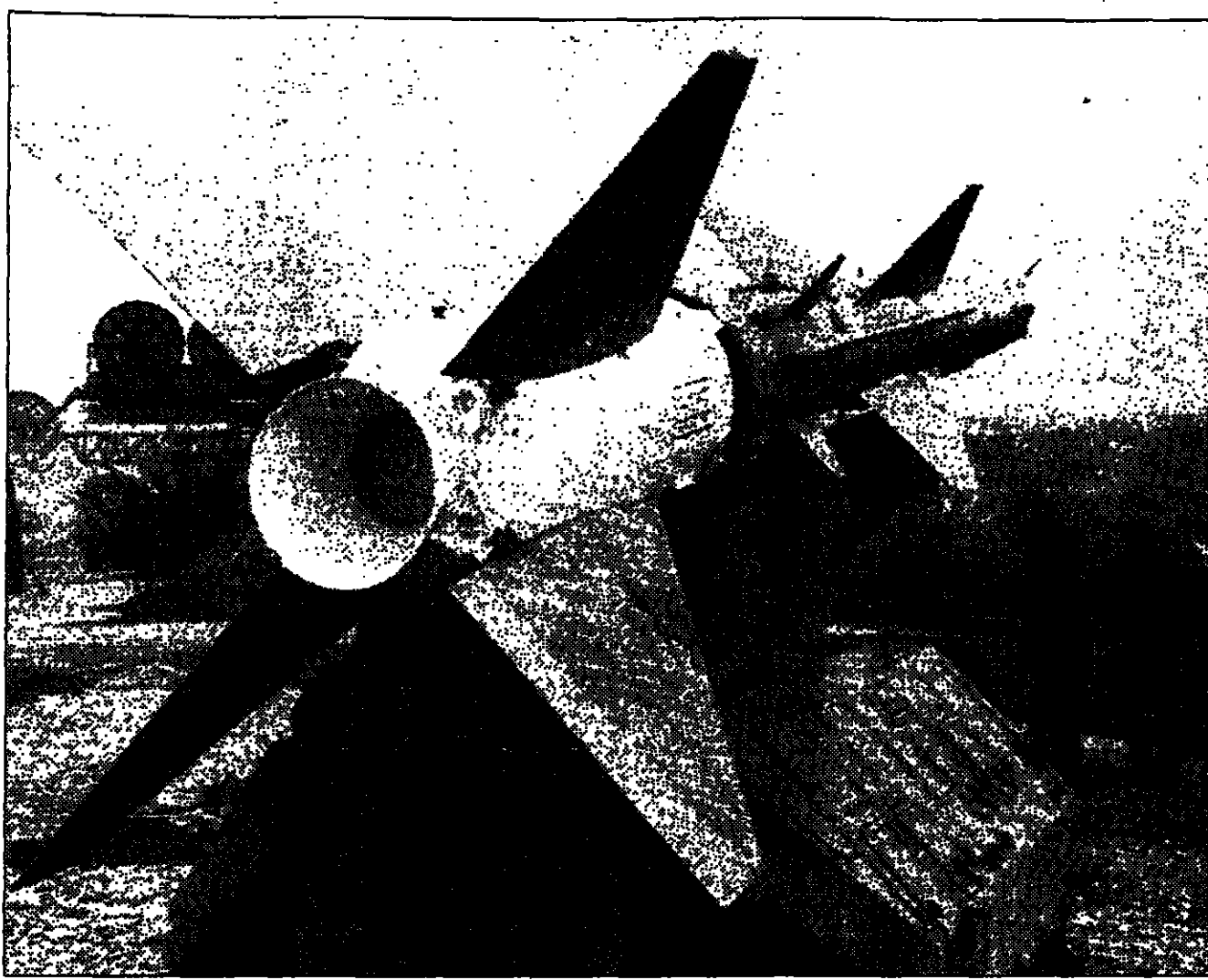
Claus Habfast, spokesman for the European Space Agency, said "we don't like the decision," adding that a European government organization should have first considered Ariane-space.

The Ariane 5, a two-stage rocket designed to carry manned spacecraft and heavy satellites, is being built with a "fail-safe tolerance" of 98.5 percent. The Ariane 4, a three-stage rocket, is considered less reliable with a tolerance of less than 95 percent. Of 35 Ariane 4 launches, two have so far failed. Since the Ariane program began in 1979, there have been 63 launches, of which six failed.

"On the issue of safety, the Ariane 5 is as good, if not better, than the Ariane 4, especially since three of the failures in the last 15 years have been in the third stage, and Ariane 5 doesn't have a third stage," Mr. Habfast said. Nevertheless, experts say the fact that Ariane 5 has no track record undoubtedly weighed heavily in the decision.

For General Dynamics to win the order, the Paris-based consortium was probably wooed with a low price, possibly in exchange for the American company being awarded an equity stake in the operation, said Peter Glazer, a vice president in charge of space consulting for Arthur D. Little, in Cambridge, Massachusetts.

A spokeswoman for General Dynamics' space division in San Diego would not comment.



Bosnian Serbian soldiers at a SAM-2 missile site near the Serbs' northern Bosnia stronghold of Banja Luka on Monday.

Renewed Shrine, Same Old Mideast

By David Hoffman

Washington Post Service

JERUSALEM — In the shadow of the Dome of the Rock, a small clutch of television technicians huddled next to a satellite truck on Monday, beaming silent images of the lustrous gold edifice into the crystal blue sky.

It was a singular moment for the ancient shrine, the third most holy in Islam and a signature landmark of Jerusalem, which has been given a refurbished dome covered with plated gold, financed by King Hussein of Jordan.

The \$6.5 million restoration of the dome

was formally dedicated on Monday. But on the 35-acre site that includes the domed edifice from where Muslims believe the Prophet Mohammed made his Night Journey to Heaven, there were no festivities and no speeches, just throngs of tourists.

As befits the history of the contested site in Jerusalem's Old City — a place which Jews call the Temple Mount, site of the destroyed First and Second Temples and the surviving Western Wall — even the celebration over the new dome was caught up in politics and conflict.

The ceremony marking completion of the 18-month-long restoration was held in Am-

man, Jordan, where King Hussein and dignitaries saw only a television view of the dome. Hussein gave a speech standing in front of a cardboard replica of Jerusalem and the Dome.

Hussein, who sold off part of his personal fortune to underwrite the 18-month-long renovation, sought to assert his custodianship of the shrine in a quiet rivalry with King Fahd of Saudi Arabia, who is custodian of Mecca and Medina, the two holiest sites in Islam.

Hussein declared that any peace agreement with Israel would have to restore Arab sovereignty.

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Bosnian Serbs Vow Onslaught in North

Gorazde Blasted As UN General Fears 'Disaster'

Aim Is to Finish Their Conquest Of Key Corridor

By Chuck Sudetic

Washington Post Service

SARAJEVO, Bosnia-Herzegovina — Despite new cease-fire pledges, Bosnian Serbian artillery opened fire into the refugee-packed eastern Bosnian town of Gorazde again Monday as the senior United Nations general here warned of a humanitarian catastrophe and blasted the Serbs' leadership for using his peacekeeping force as a tool of war.

[The UN secretary-general, Boutros Boutros Ghali, intends to ask the North Atlantic Treaty Organization for authority to request air strikes — as distinct from close air support — to protect UN "safe areas," Reuters reported from New York. Quoting diplomats, Reuters said this would require a decision by the NATO Council, which in January authorized close air support to help protect UN peacekeepers.]

Monday's attack on Gorazde marked the third day running that the Serbs have promised a cease-fire only to break it with shelling, UN officials said.

The Serbs on Monday afternoon gave a UN diplomat another cease-fire pledge, but aid workers in Gorazde reported heavy shelling on the town. Serbian tanks targeted the neighborhood of the main UN building, a UN military official said.

The British lieutenant general commanding UN troops in Bosnia, Sir Michael Rose, said, "It is a very sad week for the world when the United Nations peacekeeping operations have been so blatantly used to cover the prosecution of war by the Bosnian Serb authorities."

"The assurances given during this past week," he said, referring to pledges by Bosnian Serbian leaders that they would not attack Gorazde, "have been consistently and totally ignored."

"The assurances given that there would be no further attacks on Gorazde are at this very moment being ignored," General Rose said. "There are shells falling at this moment in Gorazde. We are on the brink of a humanitarian disaster there. So in no way is our contribution terminated."

The three-week Serbian offensive against Gorazde has gutted the credibility of the UN operation in Bosnia as well as the peace initia-

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Klosk Federal Reserve Raises Rates in U.S.

The Federal Reserve Board raised short-term U.S. interest rates for the third time in less than three months, acting to damp down robust economic growth before it stokes inflation. (Page 11)

Stock and bond prices fell, but the drop was less dramatic than after the previous quarter-point increases in the federal funds

rate, which now stands at 3.75 percent compared with 3 percent in January.

Market analysts expect the Federal Reserve to tighten again, perhaps at its policy-making meeting on May 17. One notable Wall Street watcher, Henry Kaufman, said he expected the federal funds rate to stand at 4.5 percent at the end of the year.

General News
A vineyard in Crimea trampled out the bitter grapes of "Ukrainization." Page 2.
Senator Mitchell has offered three alternatives to the Clinton health care bill. Page 3.
North Korea says direct talks with the United States are the way to resolve dispute. Page 5.

Book Review Page 7.
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Dow Jones	Trib Index
Down 41.05	Down 0.14%
3,820.42	110.79
The Dollar	
New York	Mon. close
DM	1.708
Yen	1.4765
Yen	103.20
FF	5.8465

In Soweto, a Generation's Anxious Hopes

By Lynn Duke

Washington Post Service

SOWETO, South Africa — In the new South Africa, Lerato L. Seleke, 18, hopes for indoor plumbing. It is a basic amenity, one that almost all white South Africans have. But apartheid placed a flash toilet beyond reach.

Mokete Lilelu, 19, wants respect. "The white people are not respecting the black people at the present moment, and after the elections they still won't respect us," he said.

It may be necessary, said Charles Ntuli, 22, for blacks to put whites in their place. He said he was not advocating white annihilation, "maybe just several whites, hundreds of them," to show who is in charge.

Marcia Sikakhane, 18, was not so sure the new government ought to be led by blacks. Nelson Mandela and the African National Congress, the virtually assured winners of this month's elections, do not have governing experience, she said. "A white government is experienced. At least they can correct what they've done wrong."

But, said Gladys Cadwel, 20, "we as blacks were never given a chance to rule our land and now we are given a chance. We must use that chance."

Miss Cadwel, like most of the rest of a sampling of 14 young Sowetans whose views were recently sounded out, supports the ANC. But with that support comes the warning of a generation: "If they do not fulfill their prom-

ises, we are going to turn our backs on them." The views of these young people present a kaleidoscopic vision of the new South Africa — ever changing, as daily developments heighten

Political leaders near accord to end Zulu boycott of elections. Page 8

the hopes, compound the fears or deepen the anger of young people filled with both promise and dread about their future.

Wounded on the culture of youth protest and boycotts that began here in 1976 with the police massacre of Hector Peterson, 13, and 15 other children demanding an end to apartheid in education, these young people are impatient to see the promises of the liberation struggle finally come to fruition.

Mr. Mandela and his party are pledging jobs, better schools, upgraded housing and health care — in effect, a phased-in reversal of the deeply entrenched state policies of the National

Party that relegated blacks to the bottom of the socioeconomic heap.

These young people are realists, and know such fundamental change will take time. But how much? And how can Mr. Mandela begin to raise living standards when he will be faced with political, perhaps even quasi-military, challenges from his opponents, as these young people predict? These are the kinds of questions that engaged last week during interviews at a Soweto youth program.

"There are some people that will expect that on the first of May there should be jobs, there should be housing," said Miss Seleke, who is taking correspondence courses in accounting. "I don't know what we can do to avoid that situation because it is going to come. There are those who want everything right away, which is very impossible."

Mr. Ntuli, who is studying engineering, said his hopes "change every day" with his job

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\$8 Billion Survival Kit Is Scrapped by the Pentagon

By Tim Weiner

New York Times Service

WASHINGTON — After spending 11 years and \$8 billion searching for ways to keep the government running after a sustained nuclear attack on Washington, the Pentagon will shelve its project as a high-tech antique of the Cold War, according to military officials familiar with the program.

The Domsday Project, as it was known, was created to create an unbreakable chain of command for military and civilian leaders that would withstand a six-month-long nuclear war, which was regarded as a plausible length for a controlled conflict.

"That was the requirement: six months," said

Bruce Blair, a former Strategic Air Command officer assigned to analyze nuclear war plans in the early 1980s. "And at the end we had to have a cohesive chain of command, with control over our remaining nuclear forces, that would give us leverage over the Soviets."

The nuclear tensions of that era are subsiding, and the project has less than six months to live.

"On Oct. 1, it's history," a Pentagon official said.

Like many other Cold War programs, its details remain top secret. And from accounts given anonymously by army officers and government officials, it is clear that this secrecy itself was a major stumbling block — in some

ways as great a challenge as the technological hurdles.

A Pentagon agency, the Defense Mobilization Systems Planning Activity, was given the task of making plans to give together a shattered government. But the planners found it impossible to coordinate the White House, the Pentagon, the CIA, the State Department and other agencies.

The project was an amalgam of more than 20 so-called black programs, so highly classified that only a handful of military and civilian personnel knew of them.

"That raised the bureaucratic nightmare to the nth power," Mr. Blair said. "No one knew what anyone else was doing. It was hard to find

out even the technical characteristics of some of the plans."

U.S. government plans for surviving World War III date from very early in the nuclear era. Presidents since Harry S. Truman have been briefed on the Pentagon's plans, which relied for decades on two huge shelters built in the 1950s. One was situated beneath Mount Weather in the Blue Ridge Mountains of Virginia, 50 miles northwest of Washington, the other beneath Raven Rock Mountain, 6 miles north of Camp David, the presidential retreat at the Pennsylvania-Maryland border.

In the 1980s, new nuclear war-fighting strategies that foresaw a battle lasting for months

See DOOMSDAY, Page 4



GERMAN NUCLEAR PROTEST — Police officers running toward demonstrators at a nuclear plant in Brokdorf who were protesting plans to send spent fuel to Britain.

Chinese Firms Slipping Into Private Hands

By Kevin Murphy

International Herald Tribune

HONG KONG — Quietly but quickly, China's stock market experiment is turning into a privatization program, transferring control of state companies away from Beijing faster than Chinese economic reformers had predicted or than conservatives now want.

Stock holding companies publicly traded in China and abroad are putting control of some state-owned enterprises into the hands of private-sector shareholders and Chinese institutions which themselves answer less and less directly to the state.

"The genie is out of the bottle now," said Nick Moakes, a China analyst with S. G. Warburg Securities in Hong Kong. "At the moment it is politically unacceptable to talk about privatization, and China will have major problems stopping it. But five years ago corporatization, too, was unacceptable."

No Beijing official would dare call what is happening now privatization. The term corporatization means more closely to Beijing's ambitious game plan for economic reform, one where the state encourages a market economy and private investment but ultimately retains a pre-eminent role in orchestrating overall development.

Cash-strapped state organs that were apportioned shares in the early days of the establishment of Chinese joint stock companies are widely reported to be selling their stakes in thriving "gray-market" transactions to the highest bidder — regardless of whether their holdings are strategic stakes which afford ultimate state control and in spite of flat bans against the practice.

At the same time, other government shareholders with majority stakes in companies once managed by outposts of China's vast industrial bureaucracy have been threatened with loss of control through corporate rights issues to which they cannot afford to subscribe.

When, for example, in a recent cash-raising exercise, Shandong Petrochemical offered each shareholder the right to buy 8 new shares for

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Newsstand Prices

Andorra	9.00 FF	Luxembourg	60 L Fr
Antilles	11.20 FF	Morocco	12 Dh
Cameroun	1.400 CFA	Qatar	8.00 Riels
Egypt	E.P. 5000	Réunion	11.20 FF
France	9.00 FF	Saudi Arabia	9.00 R.
Gabon	960 CFA	Spain	200 PTAS
Greece	300 Dr.	Tunisia	1.000 Din
Ivory Coast	1.120 CFA	Turkey	1.15,000
Jordan	1 JD	U.A.E.	8.50 Dirh
Lebanon	US\$1.50	U.S. Mil.	(Eur.) \$1.10

A Vineyard Reaps the Bitter Harvest of 'Ukrainization'

By Lee Hockstader
Washington Post Service

MASSANDRA, Ukraine — The black-soil farmland of Ukraine remains among the richest in the world. But as economic collapse has spread from industry to agriculture here, it has squeezed wealth even out of land — even at the Massandra vineyard, maker of sweet wines much loved by czars and commissars alike.

From his office in a magnificent Crimean chateau perched on a cliff above the Black Sea, Massandra's general director, Nikolai Boiko, 47, struggles to produce and sell wine in a cash-strapped country with an inflation rate spiking toward 100 percent a month.

"These days people have great problems buying anything," said Mr. Boiko. "They have to decide between milk or wine — there's no money for both."

To avoid a collapse of the 100-year-old vineyard, whose name is synonymous in

the former Soviet Union with quality wines, Mr. Boiko has devised a simple formula: Wine equals money.

With little cash to pay wages, let alone keep up with inflation, Mr. Boiko this year began compensating many of his more than 5,300 employees with a "bonus" of 10 bottles of wine a month, which workers can trade for sausage and milk.

Massandra also is paying in wine for its bottles from Belarus, its corks from Portugal and its coal, oil and wood from Russia.

Much, if not most, of the 15 million bottles of wine Massandra produces each year is bartered away in this fashion, simply to keep the company afloat — for now. As more and more enterprises in Ukraine go broke, and the inflating national currency loses its value daily, hanging on by a thread has become a national pastime for business managers.

Ukrainian newspapers and agricultural specialists have reported that Ukraine's

lack of hard currency is limiting spring planting this year for vegetables, wheat and sugar beets.

In the orchards of the Crimean peninsula, fabled for peaches, apples, pears and grapes, many fear that the *shock* production slump of recent years may accelerate.

With fuel and fertilizer in short supply, newspapers have even discussed fear of food shortages — an astonishing worry in a country with a third of the world's black soil and, until recently, one of the world's most productive agricultural economies.

The prospect of hunger summons chilling memories of the famine of the 1930s, when millions of Ukrainian peasants starved during Stalin's forced collectivization of agriculture.

So far, there is no evidence of hunger, and some agricultural specialists say the warnings of shortages this year are exaggerated.

But here in Crimea, people in both the

cities and fields are passionate in their conviction that simply getting enough to eat is ever more difficult. Typical wages are \$10 to \$30 a month. People on pensions often get less.

Many workers complain they have been partly — or entirely — unpaid for two months or more.

The many people whose wages are frozen — as Massandra's employees have been since December — are losing half of their buying power every 30 to 60 days as prices soar.

Crimea's economy, two-thirds of it tied to agricultural production, has been particularly hard hit by the collapse of the Soviet Union and the Ukrainian government's reluctance to enact even the most basic economic change.

The government in Kiev is so steeped in corruption and communist mentality that in the former Soviet Union, the term "Ukrainization" has become synonymous with

resistance to reforms and with economic disaster.

Privatization is hardly out of the starting blocks, and land reform has not been seriously discussed.

It is the government's effort to sustain the inefficient, Soviet-built state firms that has brought the inflation.

Crimea once was a favorite resort area of Moscow's Communist elite, a status that made it easy for local officials to get economic help from the Soviet government.

The collapse of the Soviet Union not only cut off that largesse, but also led to customs duties and other restrictions on Crimea's exports to Russian markets.

The limited access to Russia's markets, along with the generally disastrous Ukrainian economy, has convinced Crimea's Russian-speaking majority that salvation lies in seceding from Ukraine and reuniting with Russia.

The Ukrainian government rejects such a move, warning it could lead to war.

WORLD BRIEFS

An 'Absolute Nightmare' in Rwanda

NAIROBI (Reuters) — Gunmen in the Rwandan capital of Kigali appeared Monday to have started deliberately killing wounded people in areas they controlled, witnesses said. "It appears they are deliberately killing all casualties so none are evacuated because they know that the Red Cross would take any casualties to hospital," said a diplomat who was based in Kigali. "It is another terrible step in this absolute nightmare."

The gunmen previously dumped dead and wounded on nearby roadsides or in ditches. Frequently, unless Red Cross teams arrived first and were able to check for signs of life, the badly wounded were assumed to be dead and dumped in trucks with the corpses by clean-up crews.

A Singapore court last month sentenced Mr. Fay to six strokes with a rattan cane, four months in jail and a fine of \$2,000 for spray-painting cars and other offenses. He pleaded guilty to the charges.

Three From UN Killed in Somalia

MOGADISHU, Somalia (AP) — Two UN peacekeepers and a UN refugee official were killed in two separate incidents Monday in Somalia. The United Nations also reported that \$3.9 million had been stolen from its Mogadishu headquarters.

The soldiers, both Nepali, were killed in crossfire between militias of two clans that had been fighting here since Saturday, said a UN spokesman, Major Chris Budge. In the southern town of Atmodu, Alhaji Sanneh, 54, of Gambia, head of the town's mission of the UN High Commissioner for Refugees, was killed when militiamen shot at his plane as it touched down on the airstrip.

Meanwhile, Tom White, chief of technical services for the Somali UN mission, said the \$3.9 million was taken from a safe in a heavily guarded area, apparently before dawn Sunday. An investigation was under way.

Life Sentence Demanded for Touvier

VERSAILLES, France (Reuters) — The prosecution asked a jury on Monday to sentence Paul Touvier, a former Vichy militiaman, to life imprisonment for crimes against humanity over the murder of Jews in Nazi-occupied France.

Hubert Touzin, the prosecutor, told the court that Touvier, 79, accused of having seven Jews shot while he was intelligence chief of the Lyon militia during World War II, deserved the maximum penalty since there were no mitigating circumstances.

"I am convinced that Touvier knew of the Nazis' anti-Jewish policy and his act fitted perfectly into the framework of the Nazis' anti-Semitic plan," Mr. Touzin said. "I ask the court to pronounce a sentence of life imprisonment." The verdict is due late on Tuesday after the defense rests its case.

NATO Aide Expects Russian Accord

BRUSSELS (Reuters) — A senior NATO official expressed confidence on Monday that Russia would soon sign a Partnership for Peace deal despite its anger over air strikes early last week on Bosnian Serb forces attacking Gorazde. He said the Russians were determined to sign because "they do not want to be left out."

In Moscow, a senior Russian legislator said the country's leadership was divided over the issue, but he urged President Boris N. Yeltsin to sign the deal on military cooperation offered by the Atlantic alliance, Sergei Yushenkov, who heads the defense committee of the State Duma, said failure to sign "could send the world back to the Cold War."

Neutral Finland decided on Monday to join the Partnership for Peace program. Its participation would be restricted to peacekeeping and search, rescue and humanitarian operations as well as to environmental protection, Foreign Minister Harkki Haavisto said.

TRAVEL UPDATE

Northwest Cuts Fares by Up to 40%

EAGAN, Minnesota (AP) — Northwest Airlines is slashing summer vacation fares by up to 40 percent, the carrier said.

The fares are good for travel between May 18 and Sept. 12 in all states, except Alaska, and in Canada, Cancun, Mexico, and the Caribbean, excluding San Juan, Puerto Rico. The nonrefundable tickets will go on sale Monday and must be bought by midnight April 27. They also must be bought at least 30 days before travel and most destinations require a Saturday night stay.

A spokesman for TWA said it would match the fares in competitive markets.

Sei Lankam hotels are tightening security to protect tourists after recent hotel bombings in Colombo and threats by Tamil rebels to kill tourists, officials said.

The police evacuated the Brussels central railroad station for almost an hour Monday after receiving a bomb threat from a caller claiming to represent a Palestinian group, the national news agency, Belga, reported. The station reopened after a search found nothing suspicious. It was the third such alert this year. (AP)

For Hungarians, Anti-Semitism Still A Painful Subject

By Jane Perlez
New York Times Service

BUDAPEST — Just before the mass deportation of Jews from Hungary to death camps 50 years ago this spring, a young Protestant minister arrived for a clandestine meeting in a cafe here. He left his battered suitcase slightly open on a chair beside him and watched as a courier dropped a 30-page account of Auschwitz inside.

The cleric, Josef Elias, now 80, hurriedly arranged to have the accounts of witnesses, known as the Auschwitz Protocols, translated and circulated among Budapest church leaders and passed to the Hungarian leader, Admiral Miklos Horthy. There was little response.

"The fact is most Hungarians didn't reject Nazism, they accepted it," said Father Elias in his study, surrounded by dozens of works on the Holocaust, including his own, which were banned here until recently.

"Whatever is said now about Horthy saving Jews is not true."

As ceremonies are held to remember the deportation of 600,000 Hungarians within a matter of months in 1944, efforts are being made to use the occasion to try to bring Hungary face-to-face with anti-Semitism then and now.

But the period of self-examination is proving difficult as a national election approaches next month amid what many see as increasingly loud echoes of anti-Semitism.

Prime Minister Peter Boross laid a wreath at the Jewish Cemetery in Budapest on Sunday morning. But he and Foreign Minister Geza Jecsensky declined an invitation to speak at a ceremony at the Opera House organized by the World Jewish Congress.

This month, Mr. Boross's government issued a statement expressing sorrow at the loss of Jewish life in 1944 but fell short of recognizing national responsibility for what happened in World War II, when Hungarians fought beside the Nazis.

By appointing an ultrarightist member of parliament to the official Holocaust commemoration committee, the government of-

fended Jews and others here. And at a conference on the Holocaust this month, Mr. Jecsensky was booed off the stage when he said Nazism and communism were equally bad and that 500,000 non-Jewish Hungarians who died in the war should be paid equal tribute.

In contrast to Mr. Boross, President Arpad Goncz, a writer who was a political prisoner under the Communists and who is widely seen as a man of stature, addressed the audience Sunday.

"It is our duty to look straight into the face of truth," he said.

Hungarians must remember the "passivity of hundreds of thousands of people, watching hundreds of thousands of their fellow countrymen marched away to death," he said. The country must also remember the "near total helplessness of the dauntless few, who did everything in their power to slow down the smooth operation of the death machine."

Today an estimated 80,000 to 100,000 Jews live in Hungary, the largest Jewish population in Eastern Europe.

The Communists virtually banned discussion of the treatment of the Jews by the Germans and by the Arrow Cross, the Hungarian fascists.

Thus the accounts of Hungarian survivors of the death camps and of people like Mr. Elias, who tried to save Jews in Budapest, are not well known here.

Mr. Elias has spent most of the last 40 years isolated in his house in Debrecen, 200 kilometers miles east of Budapest, writing books for a German publisher. Only recently has any interest been shown by some Hungarians about his dangerous work in 1943 and 1944 and only recently have awards started to appear on his walls.

Converted to Christianity from Judaism at the age of 16, Mr. Elias said he accepted the assignment to organize protection of the Jews — putting children in safe houses, organizing food, during the military into selling him 1,000 pairs of boots for the poor — knowing that four other pastors from his Reformed Church had declined.



PREFLIGHT CHECK — A Ukrainian paratrooper applying lipstick before she boarded a plane bound for UN duty in Bosnia.

Bank Scandal Rattles González Regime

New York Times Service

MADRID — Allegations of tax fraud and financial misconduct against the former head of Spain's central bank have thrown the minority government of Prime Minister Felipe González into disarray.

Although no formal charges have been filed, the affair is viewed as potentially the most damaging of many corruption scandals involving Mr. González's government and his Socialist Party since he took office in 1982. It has led the opposition to call for early elections.

The case involves Mariano Rubio, who as governor of the Bank of Spain from 1984 to 1992 played a central role in defining the country's economic policies.

Documents published by a Madrid newspaper this month suggested that he had kept a secret investment portfolio and failed to pay taxes on huge profits.

The case is all the more embarrassing because Mr. González vouched for Mr. Rubio's honesty when the banker was accused of providing privileged economic information to a small investment bank that collapsed in 1992. A

few months later, Mr. Rubio left the Bank of Spain.

Mmanuel Fraga Iribarne, the head of the regional government in Galicia and a powerful conservative voice, has called for new general elections.

On Friday, Mr. González publicly denied any plans to resign. But leaving room for speculation, he said he would assume "political responsibility" when all the facts were known and added that they would be "very soon."

Although Mr. González was returned for a fourth term as prime minister in June, he is more vulnerable than before, because the Socialists failed to win a majority in parliament and now depend on the Catalan nationalist party, Convergencia and Union, to stay in office.

The Catalan party's leader, Jordi Pujol, has conditioned his continuing support on "swift and sure" action against "the cancer of corruption."

How Mr. González addresses the problem in his state of the union address on Tuesday may

determine whether Mr. Pujol decides to bring down the government.

The case broke two weeks ago when the opposition daily, El Mundo, reproduced on its front page copies of statements from Mr. Rubio's secret bank accounts and speculative equity portfolios. The public prosecutor, the tax office, the stock exchange and a parliamentary commission immediately opened investigations.

On Friday, the 62-year-old white-haired banker, whose signature still appears next to that of King Juan Carlos I on some Spanish bank notes, made his first comments in an appearance before parliament's economy and finance committee.

Mr. Rubio did little to address the charges that he had evaded taxes on almost \$1 million of income on secret investments, prompting even Socialist legislators to turn angrily against him.

"I have no idea how these purchases could have happened," Mr. Rubio told the committee. "I am not aware of having a secret account. I am not aware of having committed tax fraud."

Riots Break Out Again in Lyon After Youths Die

Agence France-Presse

LYON — Riots broke out in a suburb of this east central French city in a third night of violence, which has left buildings and vehicles wrecked and seen nine people arrested.

Hundreds of police officers were deployed in the suburbs of Vaulx-en-Velin, Rillieux-la-Pape and Bron, where fire fighters said two cars and a building had been set on fire Sunday.

Police said the rioting sprang from the deaths Thursday in a stolen car of two youths from the Lyon suburbs as they tried to run a police roadblock.

Their car crashed after a policeman fired shots at it.

The socialist mayor of Lyon, Jean-Jack Queyranne, condemned the riots as "premeditated acts of delinquency carried out by organized gangs."

Berlusconi Readies Cabinet

Agence France-Presse

ROME — Members of the three-party coalition that dominated the March general elections are scheduled to meet Wednesday to discuss likely candidates to the top posts in a cabinet expected to be headed by Silvio Berlusconi.

Officials said the process of forming a new government should be completed within two weeks.

Media reports here are touting members of Mr. Berlusconi's Forza Italia party as likely to take the prominent jobs, with Cesare Previti, a close aide to Mr. Berlusconi, set to become justice minister, and the economist Antonio Martino poised to win the foreign portfolio.

As for Mr. Berlusconi, now that his handpicked candidates are in the key speaker's posts in both houses of Parliament, he appears confident that President Oscar Luigi Scalfaro will name him prime minister, perhaps by the end of the week.

"I am waiting for President Scalfaro to put me in charge of the

government," he said Sunday night as he celebrated his Milan AC soccer team's third national victory.

Comparing government to sports, he pledged his cabinet would be made up of a team that would apply the same philosophy that led his soccer team to victory.

That philosophy, he said, involved "perseverance, sacrifice, work and respect for one's opponent."

Mr. Scalfaro, meanwhile, was waiting for both houses of Parliament to meet Wednesday to form the various political groups. The groups would then submit to the president the names of their candidates for senior posts.

The rightist Freedom Alliance links Forza Italia, the federalist Northern League and the neofascist National Alliance.

The new Parliament on Saturday elected two alliance candidates as speakers for the upper and lower houses after Mr. Berlusconi threatened to force a new legislative election if the Freedom Alliance, in

which his party is the largest entity, failed to have its candidates elected to head the two houses.

After fractious bargaining, the Chamber of Deputies elected the Northern League candidate, Irene Pivetti, 31, as its speaker while the Senate voted for Carlo Scognamiglio, 49, of Forza Italia.

125 Held in Mafia Sweep

The police struck a major blow at Mafia penetration of northern Italy, arresting 125 people on Monday in a vast sweep of the Milan area. The Associated Press reported.

Arrests were also carried out in Sicily and the southern Puglia region, but the operation was centered in Milan, officials said. They said more than 1,000 policemen took part and made 125 arrests, 110 of them in the Milan area. Charges included criminal association, drug and arms trafficking.

Among those arrested, according to the Italian news agency ANSA, was the wife of Biagio Cicala, an alleged drug trafficking boss who escaped a sweep a few months ago.

German Agent And Wife Slain On Libyan Trip

Reuters

BONN — A senior German counterterrorism officer and his wife have been murdered in Libya, a spokesman for Germany's anti-extremist intelligence agency said on Monday.

The spokesman said Silvan Becker, section head in the international terrorism department of the Office for the Protection of the Constitution, died in a Tripoli military hospital on April 9, several days after his wife died.

Libya is off-limits for personnel from the German domestic agency. The spokesman said, "We assume he was on a trip and that he and his wife were attacked by criminals."

German radio said Mr. Becker, 54, a Middle East expert, entered Libya with his wife from Tunisia on March 8 in a Land Rover and was attacked two days later.

The Libyans did not inform the German embassy until March 15.

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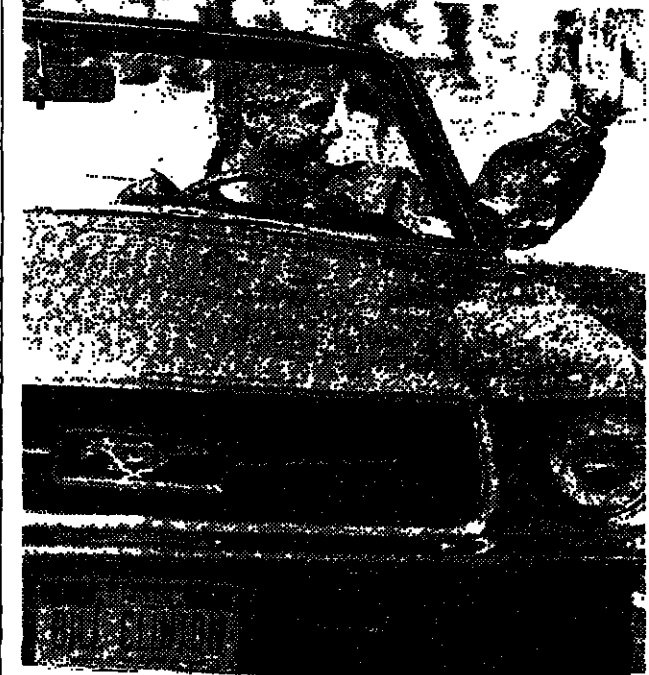
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★ POLITICAL NOTES ★



BACK AT THE WHEEL — Bill Clinton driving his 1967 Ford Mustang in Charlotte, North Carolina, as part of the model's 30th anniversary celebration. Mr. Clinton's car is on display at a museum in Arkansas until his presidency ends.

A Breather for Smokers on Legal Front

WASHINGTON — The momentum is building, no doubt about it. But the time does not seem to be ripe this year for new U.S. laws or regulations that would sharply curtail the use of tobacco.

Politicians are moving slowly for many reasons, but the main one may be that no one is sure exactly what to do to stop people from smoking. Outlawing cigarettes seems to be out of the question. It raises the prospect of the corruption and gangsterism that prevailed during Prohibition.

"I think we have enough experience with alcohol," said Representative Mike Synar, Democrat of Oklahoma, who is a leader in the anti-smoking drive in the House.

"Alcohol didn't work, because of the black market," Mr. Synar said. (NYT)

For Gore, California a Virtual 2d Home

LOS ANGELES — It is well established that the White House is determined to stroke California voters as often and as vigorously as possible to win their allegiance in the 1996 election.

But in the latest effort to plant the Bill Clinton flag in the richest electoral soil of any state with its 54 electoral votes, Vice President Al Gore stands out. After Governor Pete Wilson, a Republican, reopened the earthquake-damaged Santa Monica Freeway last week without first alerting the White House, Mr. Gore hurriedly flew here to credit President Clinton for making U.S. money available to repair the expressway.

Returning to Washington with barely a break, Mr. Gore flew to Morocco to address a committee of the General Agreement on Trade and Tariffs. And then he flew back to Los Angeles to lead a rally of Democratic volunteers on Friday night and to be the featured speaker at the Democratic Party's state convention on Saturday.

"If I make any more visits out here," Mr. Gore told the delegates, "I'm going to become a citizen of the state." (NYT)

Quote/Unquote

The comedian David Letterman on Hillary Rodham Clinton's visit to Wrigley Field in Chicago to throw out the first ball: "At one point during the game, she was getting a hot dog and a Coke. She passed a \$20 bill down the row to the vendor. She got back \$500." (LAT)

Taking Charge, Mitchell Offers Health Plan Alternatives

By Adam Clymer

New York Times Service

WASHINGTON — With White House help, Senator George J. Mitchell of Maine is offering Democratic senators three cheaper modifications of President Bill Clinton's health care legislation as he seeks to move them toward making choices.

Each of the variations, like Mr. Clinton's proposal, seeks to guarantee all Americans health insurance that can never be canceled and to require employers to pay some of the cost of their workers' insurance.

But each alternative would cost less than Mr. Clinton's plan, thereby making broad reform easier to pass.

The cuts would result from some combination of reducing what employers would pay, decreasing what the government would pay, limiting what benefits would be provided or increasing what individuals would pay.

The president joined the Democratic senators at a meeting during the weekend and urged them to move forward and to resist appeals to take only easy steps like insurance reform.

Mr. Clinton said a strong position on

health care would help the party in the November election, according to Senator Paul E. Simon of Illinois.

Senator Jim Sasser of Tennessee said Monday, "The whole problem is so complex, people are still trying to educate themselves and get some questions answered."

Senator Thomas A. Daschle of South Dakota said "no commitments were made" on the shape of health care reform during the retreat, attended by 45 of the 56 Democratic senators.

Mr. Mitchell, the Senate majority leader who spurred a Supreme Court nomination last week so he could concentrate on passing health care legislation, dominated the meeting and made it clear that he was taking charge of the issue, several senators said.

Mr. Mitchell said in an interview that no effort had been made to reach agreement at the weekend sessions, held near Williamsburg, Virginia. "There was no discussion of timing, except that we intend to get it done this year," he said.

The president did not discuss the substance of the Mitchell alternatives. But Mr. Mitchell's apparent preference was a plan

that altered the way the subsidies that Mr. Clinton proposed to help small businesses meet the requirements would be calculated.

This plan would not base the subsidies on total payrolls, as Mr. Clinton wanted, but on each worker's wage. That would mean a company could get a subsidy for each of its low-paid employees.

Mr. Mitchell told the senators this plan would distribute subsidies more fairly, reaching big companies with many low-wage workers and not wasting subsidies on small companies with well-paid employees. He said it would cost the government about \$50 billion less by the end of the century.

But the alternative that differed the most from the White House plan was one in which employers would only pay 50 percent of the cost of the average premiums charged to their workers, instead of the 80 percent proposed by Mr. Clinton. That plan would also reduce the value of the benefits package guaranteed by the measure by 5 percent and let employers of 1,000 or more workers, rather than Mr. Clinton's 5,000, manage their own workers' health care.

Mr. Mitchell said this approach, when compared with Mr. Clinton's, would reduce the average employer premium for each family by about 16 percent and cut the cost to the federal government between \$150 billion and \$165 billion by the end of the century.

Mr. Mitchell's third alternative was a variation of his first. It bases employer subsidies on individual wages rather than total payroll wages. And it allows companies of any size to get subsidies, as his first plan did. But it would also reduce the benefit package by 5 percent.

Two of the Mitchell variations would reduce the total benefits either by increasing the co-payment required when individuals use medical services or by increasing the annual limit on how much a family could be required to pay in out-of-pocket costs from the \$1,500 for individuals and \$3,000 for families in Mr. Clinton's proposal. He did not choose a particular formula.

So far, health care has come to a vote only in a subcommittee of the House Ways and Means Committee. The panel chose the route of expanding government-paid health care through a new form of Medi-

care instead of taking Mr. Clinton's approach of guaranteeing everyone private health insurance. The full House Ways and Means Committee and the Energy and Commerce Committee are likely to take up the issue next. Their chairmen are continually meeting with uncertain Democrats, trying to find packages that could command a majority.

Senator Daniel Patrick Moynihan of New York, chairman of the Senate Finance Committee, said on Sunday that his committee would start "informal discussions in the back room" on Tuesday about what to include in its bill. He had come under some criticism for saying last week that the committee would not begin writing a bill until mid-June. The Senate Labor and Human Resources Committee, headed by Sen. Edward M. Kennedy of Massachusetts, is ready to write a bill but is apparently waiting for the Finance Committee to act.

Changes of the sort proposed by Mr. Mitchell have been discussed in general terms ever since the Congressional Budget Office concluded in February that the administration's plan would add \$74 billion to the deficit by the year 2000, not reduce it by \$59 billion as Mr. Clinton contended.

Mexican Candidate Wants to Open Up the System

Court to Ponder Plea Bargaining

The Associated Press

By Tim Golden

New York Times Service

MEXICO CITY — The new presidential candidate of Mexico's long-governing party says further democratization of the political system is essential to economic and social progress.

"I do not believe the country can advance significantly in the economic or social areas if we do not strengthen our democracy," the front-running candidate, Ernesto Zedillo Ponce de León, said in an interview. "People are demanding more democracy."

Mr. Zedillo, who took over his

party's candidacy after the assassination last month of Luis Donaldo Colosio, did not express support for any measures to increase electoral fairness beyond those being negotiated among the main political parties. But his remarks appeared to signal an important departure from the thinking that has pervaded the administration of President Carlos Salinas de Gortari.

Throughout the six-year term he began in December 1988, Mr. Salinas has been wary of changes to open up the political system and reduce the huge advantages that

have helped to keep his party in power for 65 years. He has tended to view such measures as potentially hazardous steps that have to be taken carefully lest they threaten political and economic stability.

By contrast, Mr. Zedillo suggested what more and more officials have come to believe as the peasant rebellion in the southern state of Chiapas has crystallized calls for reform: that stability will be impossible without convincing, fundamental changes.

Even more directly than Mr. Colosio, Mr. Zedillo also acknowledged that winning the most votes

was only part of the challenge that the governing Institutional Revolutionary Party will face in the election on Aug. 21.

"We also have to win legitimacy," the 42-year-old economist said, referring to the expectation of many Mexicans that this presidential contest, like nearly all of those before it, will be marred by fraud by the governing party.

The comments by Mr. Zedillo are particularly striking because of the closed nature of presidential succession within the party.

By its unwritten rules, senior officials who aspire to the nomination

are supposed to hide their own political beliefs from public view. Because the candidate is chosen by the president rather than by a party caucus or primary vote, the aspirants must show loyalty to the incumbent and avoid discussing problems or policies outside their areas of responsibility.

Among the officials who were considered strong contenders for the prize that Mr. Colosio eventually won, Mr. Zedillo — who served as secretary of the budget and of education before leaving the cabinet to manage his predecessor's campaign — was probably also the one whose views were least known.

WASHINGTON — The Supreme Court on Monday agreed to decide whether statements made by defendants during failed plea bargains with federal prosecutors may ever be used as trial evidence against them.

The court said it will use a California drug case to resolve what Clinton administration lawyers call "an issue of substantial importance to the federal criminal justice system." Federal rules generally bar the use of such statements.

But another federal appeals court has said such waivers can be made.

Away From Politics

● Radar instruments aboard the space shuttle Endeavour collected three-dimensional images of the North Sea and the snow-capped Himalayas as the Earth-watching mission drew near a close. The shuttle and six astronauts are set to touch down just before noon (1600 GMT) Tuesday, ending the 10-day mission to study the global environment. Weather forecasts are favorable for a landing at Cape Canaveral, Florida.

● A Taiwanese fishing boat carrying 111 suspected illegal Chinese immigrants was seized and taken away from U.S. waters by the Coast Guard to prevent its passengers from coming ashore. Authorities found 10 women, 101 men and 10 crewmen aboard the Jin Yim No. 1 when they boarded it in international waters off San Diego, the Coast Guard said.

● A Disneyland visitor fell through a door on a Skyway gondola and landed 20 feet below in a tree at the Alice in Wonderland ride. The victim was a 30-year-old man from Highland, California, said Lindsay Schnebly, a spokesman for the Anaheim park. The park, in Anaheim, California, would not release his name. He was helped down from the tree by paramedics, treated for minor injuries at Western Medical Center and released.

● A striking Teamster was charged with attempted murder in the beating of an independent trucker who crossed a picket line. Glenn Yentis, 55, was beaten unconscious at the Arkansas Best Freight System yard in Fico Rivera, southeast of Los Angeles.

● More than 13,000 Hawaiian state and county workers went on strike after rejecting a contract offer that would have given them a 4 percent pay raise over two years. The strike was to close all public libraries and curtail service at most state and county offices and health and dental clinics. Police and fire service and most public schooling will not be affected.

● A man who dropped sexual-abuse charges against Cardinal Joseph Bernardin of Chicago has reached an out-of-court settlement in his lawsuit involving another priest and Cincinnati's archdiocese, the church said.

Stephen Cook, 34, a former seminary student, will be paid an undisclosed sum to settle the \$10 million lawsuit that accused a Cincinnati priest of molesting him in the late 1960s and early 1970s. AP, Reuters



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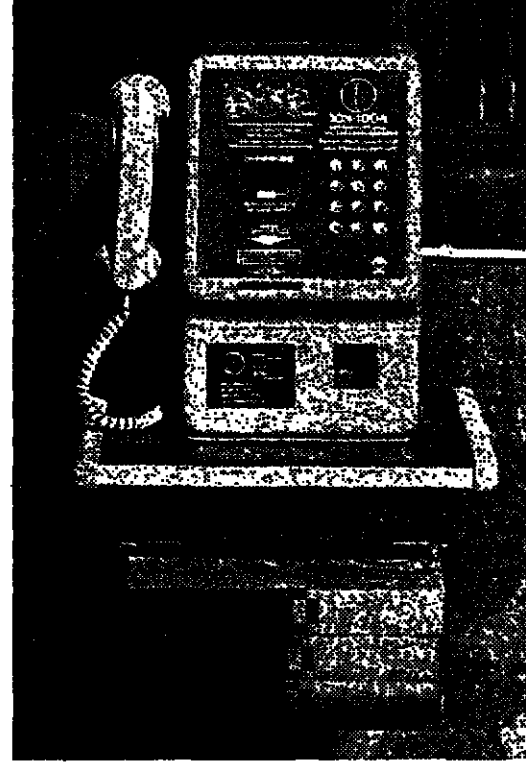
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U.S. Renews Call for Diplomacy In Bosnia

By Paul F. Horvitz

WASHINGTON — Groping anew for a strategy to end the fighting in Bosnia, President Bill Clinton blamed the Serbs on Monday for the "grim and uncertain" situation in Gorazde but stressed that Washington favored diplomacy over any allied military retaliation.

U.S. officials gathered for an urgent meeting of the National Security Council, spoke critically of the Serbian advance on the UN "safe area" of Gorazde and gave every indication that Washington opposed any military option that would require a larger commitment.

Mr. Clinton spoke by telephone to the German chancellor, Helmut Kohl, and both leaders "reaffirmed their commitment to a negotiated settlement," a White House spokesman said.

The tone of the public comments by Mr. Clinton and his aides suggested that they were still deeply frustrated by events in Bosnia but unwilling to risk a further escalation of the fighting by pursuing aggressive actions against Bosnian Serbs.

"I don't want to have a wider war," the president said.

Mr. Clinton also played down any prospect for unilateral action by Washington, such as moving to lift the UN arms embargo for the embattled Muslims. This action would be of questionable legality, he said, and would undermine current and future UN embargoes elsewhere in the world.

The president, noting past diplomatic successes for the Western allies in Sarajevo and recent agreements between Bosnia and Croatia, expressed optimism about the long-term diplomatic effort to end the Bosnian civil war.

Secretary of State Warren M. Christopher, although harshly criticizing the Bosnian Serbs, offered no indication that any new U.S. approach was imminent.

In a speech to an education group, he said the Serbs had repeatedly lied about their intentions, misled negotiators and engaged in "flagrant aggression and inhumane actions." He said U.S. officials were "urgently reviewing our options for an appropriate response" to the situation in Gorazde and in Bosnia.

Before flying to Milwaukee for a speech on health care, Mr. Clinton said the situation in Gorazde "remains grim and uncertain."



Bosnian Serbs returning from frontline duty near Gorazde. UN aides reported small-arms duels Monday on the fringes of the city.

BOSNIA: UN Commander Warns of Humanitarian Disaster in Enclave

Continued from Page 1

tive of the United States and Russia, diplomats and UN officials in Sarajevo said.

The UN Security Council declared Gorazde a "safe area" last year after an identical Serbian offensive against the nearby Muslim enclave of Srebrenica.

Secretary-General Butros Butros Ghali warned two weeks ago that the Gorazde "safe area" and the 65,000 people trapped in it, might be protected by air strikes if the Serbs did not withdraw to the positions they held on March 30, the day the offensive began.

North Atlantic Treaty Organization fighters performed two limited air attacks last week, but they were carried out under a Security Council resolution calling for protection of UN personnel, not the "safe area," and did little more than delay for three days the Serbian onslaught.

Reports by UN relief workers said Serbian shells were ripping into Gorazde at a rate of one every 20 seconds Monday morning, but the artillery fire tapered off to one every two minutes by the afternoon. Fierce clashes between

the Bosnian Army and Serbian forces were being waged on the edge of the town, a UN military official said.

"After a break between 10 and 10:30, shelling of the city center started again, with its reporting on the police station, courthouse, and 'Panorama' refugee center," said reports filed this afternoon by a UN refugee relief worker in the town. "These are all located 50- to 100-meters from the hospital."

According to an incomplete casualty tally, the Serbian offensive has killed 302 persons, including 37 people in the attacks on Sunday alone, the refugee-relief worker's report said. The death toll includes 41 children and 105 women and elderly people. On Sunday alone, 5 children and 23 elderly people or women were killed.

As of this morning, the offensive had left 1,075 people wounded, including 73 wounded on Sunday. Well over 30,000 people, almost half of the entire population of the Gorazde pocket, have been rendered homeless, some for the second and third time during the war.

Analysts in Sarajevo said the Serbs were not

likely to carry out a full assault on the town of Gorazde itself, fearing that it would lead to a bloodbath that could prompt armed intervention by the international community.

Rather, they say, the Serbs will maintain their choke hold around the Gorazde pocket, as they have around Srebrenica and Zepa, in an effort to render the area so economically unviable that the Muslims choose to leave of their own accord once a peace plan is eventually reached.

The Serbian shelling, they say, is partially in response to fading Muslim resistance, partly vengeance-driven and partly an effort to terrorize the Muslim population so it will plead to be evacuated.

A Western diplomat said the Serbs' attack on Gorazde had scuttled a U.S. peace initiative in Bosnia.

"It is very difficult to conceive of a peace process now," the diplomat said. "The actions of the Serbs over the last week have been directed toward making war. I don't see how you can talk peace."

POLICY: Bosnian Serbian Military Heralds a New Offensive in North

Continued from Page 1

would accept their plan, Mr. Milosevic replied. "I believe there is no serious politician within the Bosnian Serbs who is not for peace."

The plan was "the only pragmatic way" to resolve the crisis over Gorazde, he said.

Despite entreaties from various United Nations, European and Russian envoys visiting Belgrade over the past week, Mr. Milosevic

has so far taken no visible action to rein in General Mladic, according to diplomatic sources.

Some believe he may even have given his formal blessings to General Mladic's offensive against Gorazde. They also note that he held numerous meetings with leaders of the Bosnian Serbs, including General Mladic, prior to the final assault by Bosnian Serbs on the city on Saturday.

Gorazde lies only a few miles from Serbia's border and is close to its Muslim-populated Sandjak region that constitutes a center of opposition to Mr. Milosevic's government.

"I think Milosevic was in on this whole thing," said a diplomat. "There is no split between him and Mladic over this offensive."

But other diplomatic and Serbian analysts believe that General Mladic is largely beyond Mr. Milosevic's control and bent on settling

his own personal battlefield accounts with the UN protection force and particularly its current commander in Bosnia, Sir Michael Rose.

In any case, the fall of Gorazde would constitute the fulfillment of one of the Bosnian Serbs' main long-term war objectives: linking the territories they hold in eastern Bosnia to those in the south and southwest of the country.

General Mladic, whose daughter committed suicide in Belgrade on March 24, has reportedly been brooding lately over a series of military and political reverses dealt to his army partly by a more assertive UN force that since mid-February has also had the backing of NATO air power.

In July, his forces stormed and conquered Mount Igman, overlooking Sarajevo, only to be forced to withdraw immediately under UN pressure.

In mid-February, General Mladic's army was obliged to pull back its heavy weapons from around Sarajevo under the threat of NATO air strikes. Then in March, UN peacekeepers forced it to lift its siege of the Muslim enclave of Maglaj in north-central Bosnia.

Bosnia Protests Over UN Leader

Agence France-Press

UNITED NATIONS, New York — The Bosnian president, Alija Izetbegovic, has demanded that Butros Butros Ghali step down as UN secretary-general if the embattled Muslim enclave of Gorazde falls to the Bosnian Serbs.

Vice President Ejup Ganic, who was visiting UN headquarters in New York, said that Mr. Izetbegovic had written to Mr. Butros Ghali on Sunday.

Mr. Ganic said that Mr. Butros Ghali had failed to take quick action to prevent the capture of the UN-designated "safe area."

Russian Attacks Serb 'Madness'

By Fred Hiatt

Washington Post Service

MOSCOW — Russia's envoy to the former Yugoslavia, returning here after the failure of his latest peace efforts, on Monday attacked Bosnian Serb "extremists" who he said had "fallen ill with the madness of war."

The envoy, Vitali I. Churkin, said Russia should not allow such extremists "to use the policy of Great Russia to cover their activities." Russia is a traditional supporter of the Serbs in Yugoslavia.

After claiming influence over the Serbian fighters, Russia has failed in recent days to restrain them from attacking the United Nations safe area of Gorazde.

Mr. Churkin, in a significant shift, said Russia should stop

speaking for or with the Bosnian Serbs. Russia, he said, had agreed to help the Serbs because they had believed all the world was against them. But instead of listening to Russian advice, Mr. Churkin said, the Serbs "are using Russian politics as a shield."

"The time for talks has passed," said Mr. Churkin, who is a deputy foreign minister. "The Bosnian Serbs have to understand that in Russia they are dealing with a great state, not a banana republic."

Mr. Churkin also said that Russia could no longer support lifting the international sanctions now.

"The Serbs showed no readiness or sincere desire to negotiate about anything," he said.

But Russian officials also renewed their criticism of NATO

policy, saying the U.S. bombardment of Serb positions last week was largely to blame for the current inflammation of tensions.

Foreign Minister Andrei V. Kozirev, who also failed to broker a cease-fire during a visit to the region Sunday, said the current threat to UN peacekeepers "is not a reason for NATO bombing, but a consequence of it."

The government here seemed torn between a desire to support the Serbs, who have considerable backing among nationalist politicians in the parliament, and anger at the Serbs' intransigence.

Sounding angry and distressed after the breakdown of his latest mediation efforts, Mr. Churkin called the situation "illogical and inexplicable."

CHINA: The Pace of Privatization CAMP:

Continued from Page 1

every 10 they held and only the state among major shareholders demurred, People's Republic of China Inc. saw its stake shrink from a controlling 51.2 percent to 38 percent.

"The Chinese government is determined not to see its stake in these companies dwindle to nothing," said Brian Power, managing director of China Securities Research Center Ltd. in a Hong Kong newspaper column highlighting such maneuvers. "Through hanging onto its stake means taking shareholders through many twists and turns."

In Zhongyuan Machinery & Steel Tube Company's rights issue, the state lacked the 19 million yuan (\$2.2 million) needed to buy its allotment of shares in the new rights issue. Instead of paying in cash, the Ningbo Municipal Monetary Taxation Bureau, which held the state shares, gave Zhongyuan 19 million shares it also owned in Ningbo Huijian, a company listed on the Shanghai exchange.

Now, Zhongyuan Machinery is Huijian's largest shareholder and another example of a clear test of how far Beijing is willing to let things go.

Beijing's development of a market economy and stock markets has created an expanding list of Chinese equities since Shanghai's market reopened in December 1990 and Shenzhen's market started seven months later without Beijing's approval.

There are A shares, yuan-denominated securities owned and traded only by Chinese domestic investors. Then came B shares, Chinese equities available to foreigners only but traded in Shanghai or Shenzhen and in U.S. or Hong Kong dollars.

Regulators estimate that up to 3,000 Chinese companies have issued legal person shares, often to each other, which has resulted in tangled cross-ownership webs with parallels to Japan's keiretsu system, in which cross-share holdings between companies have cemented business relationships.

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The newest innovation comes in the form of H shares, securities held in Chinese state-controlled companies listed in Hong Kong.

Nine companies came in the first batch.

Another 22 major companies have been given clearance to begin extensive efforts to conform to international standards for accounting and disclosure.

But lurking unresolved in the regulatory background is the future of legal person shares, those A shares held by Chinese government entities and state-controlled industries which were designed to help keep corporate control in state hands.

"This is one of the toughest decisions to be made, and a main reason the new national securities law is still waiting to be approved by the Standing Committee of the National People's Congress," said Nicholas Howson, a lawyer with Paul Weiss Rifkind's Beijing office, referring to China's senior legislative body and the prickly ideological choices which confronts it in new legislation.

"In addition, China is working to finalize regulations for companies that want to list directly on overseas exchanges, but it still faces a number of complex issues with broad political and practical trading ramifications at home, including the legal shares dilemma," said Mr. Howson.

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Taiwan to Proceed With China Boycott

TAIPEI — Taiwan on Monday said China's investigation into a boat disaster that killed 24 Taiwanese tourists was a positive start, but a planned boycott of tour groups to China would go ahead unless more information was forthcoming.

"The initial result is a positive response, but we need to further check if it's true," said Shi Ching-ping, deputy secretary-general of the Straits Exchange Foundation.

"Also, we hope the mainland can make public a more complete investigation procedure," he said.

Prime Minister Li Peng of China indicated on Monday that his government had closed its inquiry into the boat fire, ignoring charges in Taiwan that the killings were carried out by renegade Chinese soldiers.

China said the police in Zhejiang Province had arrested three men for murder, robbery and arson in the March 31 disaster that killed 32 people, including eight Chinese crewmen. The victims either burned to death or drowned.

The initial Chinese response to the clamor over the incident was to say that the deaths were accidental.

The Mainland Affairs Council, which formulates Taiwan's policy towards China, said it would continue with a boycott of group tours to China planned to start May 1, citing dissatisfaction with the request by what it denounced as China's "bandit" authorities.

"The report was just too simple. We are still waiting for a more reasonable explanation," the council chairman, Huang Kun-hui, told parliament.

Mr. Huang demanded that Chinese leaders apologize to the victims' relatives and allow Taiwanese reporters to cover the trial of the three suspects.

Several members of the governing Nationalist Party's Central Standing Committee also welcomed China's investigation.

"Based on the fact that they announced the result, they know what they did in the past was wrong. This is a correct direction," said a former prime minister, Hau Pei-tsun.

Chinese Welcome Peace Corps Despite Tensions With U.S.

By Daniel Southerland
Washington Post Service

LESHAN, China — The first American Peace Corps volunteers to serve in China are teaching in the country's southwest hinterland, where they must cope with unheated classrooms, culture gaps and a stark lack of privacy.

But the 18 American volunteers, who teach English to future teachers and medical students at five sites in Sichuan Province, appear to be adjusting well, getting a largely enthusiastic reception and keeping busy dispelling misconceptions about the United States.

Despite strains in relations between the U.S. and Chinese governments, this is one cross-cultural channel that seems to be working.

Some of the Chinese students at the Leshan Teachers College who were raised in rural areas had never seen a foreigner, much less an American, before the Peace Corps volunteers arrived.

"A lot of first-year students walked into the classroom wearing Mao-style suits" and looking petrified at seeing a foreigner, said Jason Reikate, 23, one of five Americans teaching in Leshan. "Some of them were sure that Americans all have guns and use drugs."

Everyone seems to know where the Americans have been each day and what they're doing. Megan Tracy, 26, a teacher at Chengdu Teachers College, was approached by Chinese students after she returned from shopping for vegetables one day.

"We heard you were overcharged in the market," one of the students said. "You have to be careful not to let them cheat you."

William M. Spidel, director of the Peace Corps program in China, said he hopes to see it expand. Peace Corps and Chinese Education Ministry officials began preliminary talks in Beijing in February on whether to continue the program, and a decision is expected this summer.

In Leshan, about 160 kilometers south of the provincial capital of Chengdu and 1,800 southwest of Beijing, the Americans live in one-room apartments that are spacious by Chinese standards. They share a kitchen, refrigerator and dining

room but often eat in the city's small restaurants.

Each teacher is provided free lodging by the college and a monthly living allowance of 650 yuan — \$75 — from the Peace Corps.

The China program is a modest one for the Peace Corps, which deploys nearly 7,000 volunteers worldwide. But China's government is often sensitive about programs that bring foreigners into close contact with ordinary Chinese. It took two years to negotiate the details.

The program originally was to begin in the fall of 1989. But after the United States protested China's brutal crackdown on democracy demonstrators in June of that year, both sides decided to postpone the start indefinitely.

Beijing wants stronger ties with the United States to promote its foreign trade and strategic interests. But at the same time it is cautious in dealing with foreigners who could strongly influence Chinese youth.

After renewed negotiations, the first volunteers finally arrived in China last June, underwent 11 weeks of language training and began teaching last fall at five sites in China's most populous province. They are to stay in China until mid-1995.

They are called "U.S.-China friendship volunteers," rather than Peace Corps volunteers — the only Peace Corps contingent in the world that is not identified by its proper name. This apparently is because Chinese Communist Party propagandists, in earlier years, had condemned the Peace Corps as a "tool of American imperialism."

Shuai Peitian, head of the English department at Leshan, supervises the American teachers and their courses. "They're working very hard," Mr. Shuai said. "I hope the United States will send more teachers. The more the better."

In contrast with traditional Chinese teaching, which emphasizes rote learning and great deference of students toward teachers, the Americans try to encourage classroom discussion.

"Our teacher tells us to give a different opinion from his if we want," said Cai Guizhan, 22. "That makes our thinking freer."

Challenger's Bid Fizzles For Japanese Leadership

Compiled by Our Staff From Dispatches
TOKYO — Foreign Minister Tsutomu Hata on Monday appeared certain to be elected prime minister after his main challenger's bid for the post failed to gain momentum.

Leaders of the seven parties in the governing coalition will resume talks on Tuesday, aiming to wrap up a basic policy program before naming Mr. Hata, 58, as candidate to replace Prime Minister Morihiro Hosokawa. Mr. Hosokawa resigned on April 8.

Tomichi Murayama, head of the Social Democratic Party, the largest in the coalition said: "All we have to do is nominate our candidate, elect a new prime minister and pass the stalled budget bills as soon as possible."

His confident prediction of a swift solution to Japan's power struggle came after a former foreign minister, Michio Watanabe, postponed a decision on whether to quit the opposition Liberal Democratic Party as a preamble to seeking the leadership of the coalition. The delay, in effect, put him out of the running.

Long an influential faction leader in the Liberal Democratic Party, Mr. Watanabe held prolonged discussions on Sunday and Monday with the Liberal Democratic chief, Yohei Kono, and emerged to say he needed more time to think the matter over and that it seemed difficult for him to cooperate with the coalition "in the current situation."

Liberal Democratic sources attributed Mr. Watanabe's hesitation

to the likelihood that only about 20 out of more than 50 legislators in his Liberal Democratic faction, the third largest in the party, would follow him into the coalition — far short of the minimum required for a chance to grab the leadership.

Coalition sources said party leaders were expected to reach a final consensus on backing Mr. Hata's bid by Tuesday and call for a parliament session to vote in a new prime minister the next day.

Mr. Hata, leader of the Japan Renewal Party, a powerful group in the coalition, has been front-runner for the office of prime minister since Mr. Hosokawa stepped down.

Mr. Hata was a Liberal Democratic for more than 20 years until he quit last year to join the coalition. As foreign minister and deputy prime minister, he played a key role in the Hosokawa government.

(AFP, Reuters)

Perry to Arrive Thursday
The U.S. defense secretary, William J. Perry, will visit Japan on Thursday and Friday, the Foreign Ministry said in Tokyo, according to Agence France-Presse. Mr. Perry postponed the trip by two days after the downing of two U.S. helicopters by U.S. jets over Iraq last week.

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TOGETHERNESS — Martin Lee, center, head of Hong Kong's United Democrats party, whose call for more democracy in Hong Kong is opposed by China, holding the hand of Anthony Cheung, left, head of the Meeting Point party, as they announced Monday they were joining up to launch the Democratic Party in October. On the right is Yeung Sum, a member of the United Democrats.

North Korea Insists On Talks With U.S.

Compiled by Our Staff From Dispatches
TOKYO — Breaking his silence on an issue that has raised tensions in Asia, President Kim Il Sung of North Korea said direct talks with the United States are the only way to resolve the dispute over his country's nuclear program, which U.S. officials suspect is being used illicitly to develop weapons.

Mr. Kim made the comment in a written response to questions submitted by the Japanese television network NHK, the network said in its Monday evening news broadcast. Mr. Kim, who has been dictator of North Korea for nearly half a century, rarely has contact with the foreign press.

"Although we have never had nuclear weapons, America is unjustly finding fault with us and kicking up a ruckus with noisy pressure," he was quoted as saying.

Accusing the United States of stockpiling nuclear weapons in South Korea, Mr. Kim said, "The only way that the nuclear problem on the Korean Peninsula can be solved is through direct talks with the United States."

While he apparently did not confront the question directly, Mr. Kim's comments indicated that North Korea was sticking to its position that it could not accept the UN Security Council's formal request for full nuclear inspections. If

so, it is unlikely Washington would accept Mr. Kim's call for direct talks.

Fears that North Korea is building nuclear bombs grew last month when it denied inspectors from the International Atomic Energy Agency full access to its nuclear sites.

In Seoul, military officials said the first shipment of Patriot anti-missile batteries for South Korea's defense had arrived Monday aboard two U.S. military transport ships.

South Korean military officials said three Patriot batteries with a total of 24 launchers arrived at the port city of Pusan. Also shipped were 84 Stinger missiles for defending the Patriots, which are to be deployed mostly at major ports and air fields, the officials said.

President Bill Clinton ordered the deployment in late March because of heightened tensions over North Korea's nuclear program.

But by the time of their arrival nearly a month later, tensions had eased somewhat and a new round of U.S. diplomatic efforts was under way.

(AP, AFP)

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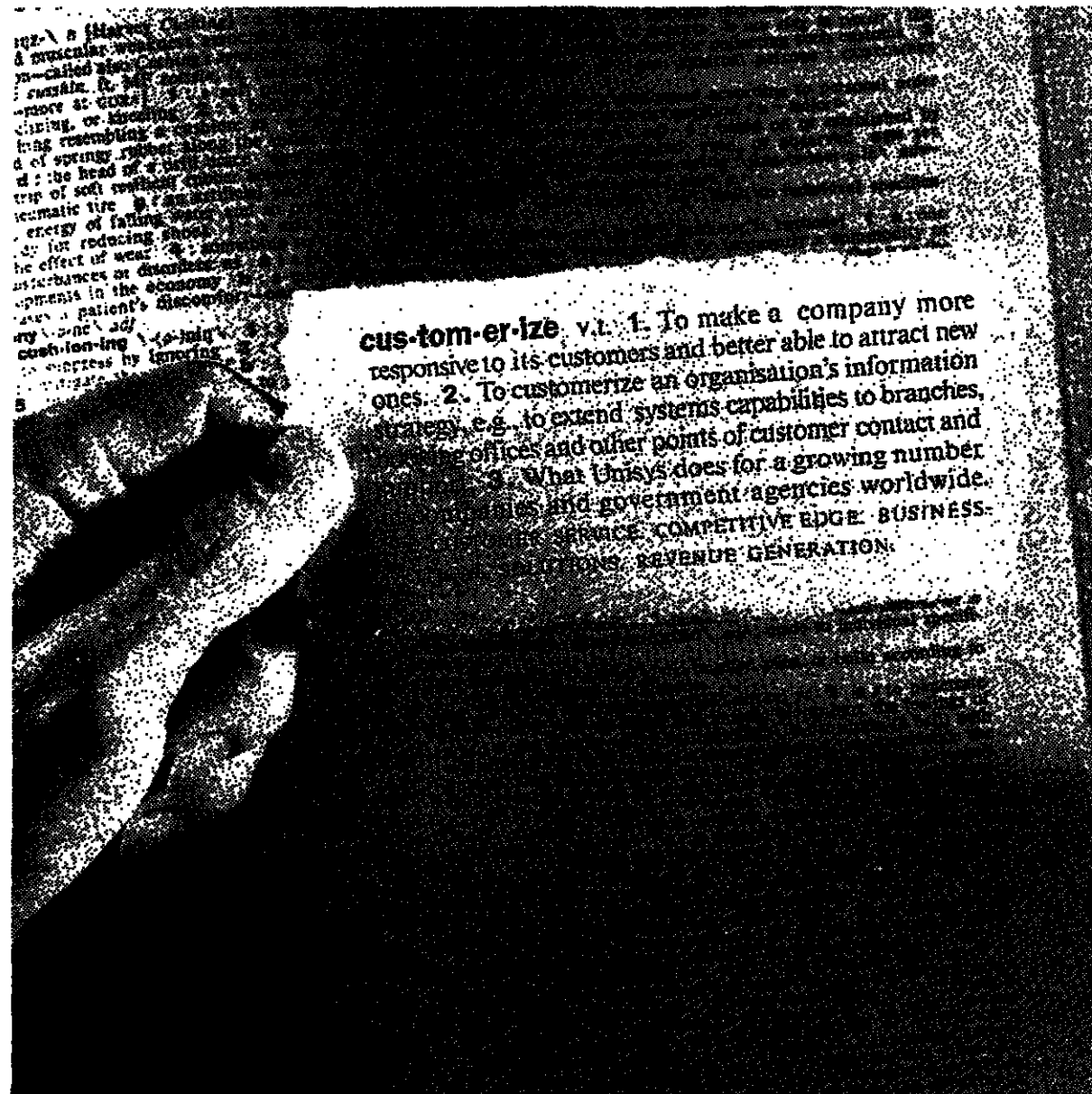
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Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

Greece in the Balkans

This week Washington welcomes Prime Minister Andreas Papandreu. It should begin by asking him to explain why Greece is throwing kerosene on the fire in the Balkans. Without, reportedly, even consulting his foreign minister, in February he suddenly clamped a painfully effective blockade on the former Yugoslav republic of Macedonia. The step is crudely destabilizing in a country already caught up by tensions that threaten to ignite a whole new set of southern Balkan wars.

By a sympathetic stretch, one can sense the historical anxieties that have led Greece's leadership and hyper-stimulated public to perceive a mortal national threat in Macedonia's claim to a Hellenic name and in its use of Hellenic symbols and rhetoric. But then on the basis of this emotional flight to commit what is close to an act of war — blockading 80 percent of Macedonia's commerce? To do this at a moment when Serbia, Albania and Bulgaria are conducting policies that call into question the integrity of Macedonia and that invite a broad-

Lots of Death Penalties

There is little doubt after last week that members of the House of Representatives are strongly in favor of the death penalty. The crime bill that came over from the Senate last fall made dozens of offenses capital crimes, and now the House has added more. Almost 70 crimes will carry a death penalty if this House provision survives conference, and that is likely to happen. On three separate votes, the House resisted efforts to soften these provisions. The capital punishment crowd prevailed 3 to 1, even rejecting an amendment that would have limited the penalty to crimes in which a victim was actually killed. Polls indicate that the death penalty is widely supported in the country, so the House vote comes as no surprise. It is nevertheless a regrettable step, motivated more by vengeance than by reason, and implicating society in barbaric punishment.

Thursday's vote will not be reversed, but the House will have an opportunity this Tuesday to take steps that will at least diminish the possibility that innocent people will be executed. At issue is reform of federal habeas corpus law. Habeas corpus proceedings give prisoners a chance to challenge their state court convictions in federal court. It is a form of appeal that is available after all ordinary direct appeals have been exhausted. Supporters of the death penalty have complained that repeated habeas corpus petitions, some of which at-

Blowing a Smoke Screen

"It's theater," a public relations adviser to a cigarette maker sneered about last week's dramatic clash between a congressional subcommittee and executives of the seven largest American tobacco companies. So it was, and a particularly corrupt and mendacious kind of theater at that. Perhaps the prospect of someday owing millions to the victims of their product compelled the tobacco executives to deny the reality of the consequences of cigarette smoking.

It was a shameful day for American business, even though we are wearily familiar with the obfuscations employed by the defenders of an industry responsible for the deaths of nearly half a million Americans every year.

The tobacco executives were testifying at the invitation of Representative Henry Waxman, chairman of the House Energy and Commerce Subcommittee on Health and the Environment. Mr. Waxman was, in turn, responding to the shrewdly worded request of David Kessler, commissioner of the Food and Drug Administration, that Congress give him "clear direction" as to whether the FDA should be enabled to take regulatory action on cigarettes.

Last month Mr. Kessler suggested that the reason many smokers find it close to impossible to break the habit may be because the industry makes it close to impossible — by controlling the level of nicotine, a powerful addictive agent, during the cigarette production process.

For seven hours the executives faced sharp questions, which they buried in smoke. James Johnston of R.J. Reynolds, for instance, linked smoking with other pleasurable habits like drinking coffee or eating sweets. Mr. Johnston also said that neither he nor anyone else knew how many smokers died of cancer, because estimates of death are "generated by computers and are only statistical."

Seconds after being told that users of snuff were 50 times more likely to develop oral cancer than abstainers, U.S. Tobacco's Joseph Taddeo said, "Oral tobacco has not been established as a cause of mouth cancer." Asked if he knew that cigarettes caused cancer, Lorillard's Andrew Tishler replied, "I do not believe that."

All the executives, however, confirmed that tobacco companies could control the amount of nicotine in cigarettes by altering blends of tobacco. And every last one of the six who had children said he would prefer they not smoke.

If the hearing was, as the PR adviser said, "theater," it was also only a first act. There was no denouement, but there were revelations. Lorillard's Dr. Alexander Spears admitted, for example, that the data he gave Congress three weeks ago showing a drop in the

Other Comment

ASTOUNDING TOBACCO STATISTIC

Cigarettes are the single most dangerous consumer product ever sold. Nearly a half-million Americans die every year as a result of tobacco. This is an astounding, almost incomprehensible statistic.

For decades, the tobacco companies have been exempt from the standards of responsibility and accountability that apply to all other American corporations. Companies that sell aspirin, cars and soda are all held to strict standards when they cause harm. We don't allow those companies to sell goods that recklessly endanger consumers.

— Representative Henry Waxman, Democrat of California, at a House subcommittee hearing last Thursday, as quoted by The Washington Post.

The self-righteous cant emerging from America over smoking is enough to make one reach for a Havana cigar. For the politicians, smoking has become all too easy a target. Congressmen see a natural advantage in brandishing dubious statistics and belaboring the industry. One of them, Henry Waxman, wants to have tobacco classified as a restricted drug. Americans should beware of what is becoming a hysterical crusade against tobacco.

— The Daily Telegraph (London).

When a Mighty Alliance Aims for Peace at Any Price

By Anthony Lewis

NEW YORK — Truman! thou shouldst be living at this hour. (With apologies to Wordsworth.) For 50 years American power, purpose and resolve have kept the peace in Europe. They faced down the severest challenges, and prevented a third great war. That age is over now. So we have to conclude from the humiliation in Bosnia.

There the United States and NATO, the most powerful military alliance in the world, have allowed themselves to be intimidated by a minor force of ultranationalist Serbs under demagogic leadership.

The reason for this seismic change in the balance of effective power in the world is plain. The United States has in office an administration that does not believe in the commitment

of American power, purpose and resolve to keep the peace.

Eleven months ago a high Clinton administration official, Undersecretary of State Peter Tarnoff, as good as said so. He explained at a background briefing that the United States could no longer afford to lead the world and that it would therefore play a more modest role.

Secretary of State Warren Christopher and others disavowed the Tarnoff Doctrine. There was no intention, they said, of walking away from the responsibilities of leadership. But we can see now that the Tarnoff Doctrine is in operation. It is in fact the Clinton Doctrine.

Bosnia is a dramatic demonstration of the loss of purpose and resolve abroad. Bill Clinton has repeatedly seemed to take on the mantle of leadership there, then wavered. As a show of irresolution it might have been plotted by a playwright.

Mr. Clinton came to office demanding sterner measures to stop Serbian aggression: lifting the arms embargo on the Bosnian victims and using NATO air strikes against the aggressors. But when the European allies demurred, he gave up those ideas without a fight.

A year of wavering seemed to end in February, when President Clinton led NATO to issue an ultimatum to the Serbs to stop shelling Sarajevo. The Serbs drew back. But

again the United States wavered, failing to press for a broader Serbian pullback and doing nothing as the Serbs launched an attack on the safe haven of Gorazde.

A week ago there was another show of strength that seemed to promise resolve: the air strikes on Serbian guns at Gorazde. But when the Serbs renewed the attack, Mr. Clinton assured them that America had "no interest" in changing "the military balance." That is, "no interest" in helping the victims of aggression, the Bosnians whom a year earlier Mr. Clinton had wanted to arm and help with air strikes.

Administration officials indicated that NATO would not hit the Serbs again because that might anger them and make them unwilling

to agree to a cease-fire. Serbian tanks rolled into Gorazde, and then there were reports that Bosnian Serb leaders had agreed to a cease-fire.

That is Munich, an American Munich. And it can only have the same result that it did when Neville Chamberlain and others gave Hitler part of Czechoslovakia at Munich in 1938 in return for his promise to be good: to encourage further aggression.

The principle that underlay security in Europe after World War II was that territory could not be seized by force. That is the only principle that can assure peace in Europe after the Cold War — that can keep other conflicts from unraveling security on a far larger scale than Bosnia.

Even many of those who opposed U.S. force in Bosnia thought that, once it was employed, America should not retreat. The public collapse of American will at Gorazde has gravely injured the interests that the president's national security adviser, Anthony Lake, said on April 7 were at stake in Bosnia: "NATO's credibility and our very vision of a post-Cold War Europe."

In drawing back from the world, President Clinton might say, he is following the will of the American people. That may be. Harry Truman had a different view of leadership.

Looking at Gorazde, Americans who worry about the consequences of failure to stand up to aggression and genocide in Europe could say what the Duke of Bourbon said in Shakespeare's "Henry the Fifth" as he looked at the field of Agincourt after the outnumbered English had defeated the French: "Shame and eternal shame, nothing but shame!"

The Washington Post.

And then are you concerned with the blight of continued racism and anti-Semitism in this country? Nothing yet has convinced me that racism is not all around us still and at times seems to be growing stronger and more ugly.

And are you concerned about basic values — what they are and whether we heed them? Are you concerned about your country? Are you concerned about its seeming lack of outstanding leadership on so many levels? Are you concerned that many of those whom we ought to be able to look up to appear now to have feet of clay?

Are you concerned about the seeming deterioration of moral values, about the failure of the family and the schools and the synagogues and the churches to lead and to show the way?

Are you concerned about what seems to me to be a lessening sense of integrity, the very thing that stands out so impressively in many of our past revered leaders?

The Washington Post.

Blackmun: 'A Seeming Lack of Outstanding Leadership on So Many Levels'

The following are remarks that Justice Harry Blackmun of the U.S. Supreme Court sent last June to Sol Linowitz, a lawyer and former diplomat, who had asked him for comments.

WASHINGTON — I ask rhetorically about your "concerns." Do you share with me a general but deep concern about the state of the world today? I am old enough to have lived through two world wars and a constant stinging of lesser conflicts that seem inevitably to follow closely one upon the other. And I do not like very much the feel of things today.

There are improvements, of course, that have been made, but the continued stress everywhere and seemingly unending bloodshed, bloodshed that affects so many common people who want only to live out their lives in peace and understanding, deeply disturbs me.

Do you share with me a concern about our standards, professional and otherwise, these days? Are you bothered at all by the current emphasis in the legal profession upon the "bottom line," on

billable hours, on advertising and on a reluctance in many quarters to engage in pro bono work?

Are you concerned about the overriding interest in some quarters of the medical profession with income, about that profession's decrease in patient confidence and about the proliferation of malpractice suits and punitive damages?

Are you concerned about the wretched events in Los Angeles a year ago? Now, months later, we still cannot escape the grip and the significance of those events and what they hold for all of us in the days ahead. Indeed, it seems as though the entire world — the Far East, the Middle East, much of Africa, South America, Europe and ourselves — is in turmoil. Man's inherent inhumanity to man. Can we possibly rise above it and see to it that the flowering of new life somehow will rise, as it always has before, from the ashes of old disasters?

This Isn't the Way to Have the United Nations Keep the Peace

By Edward C. Luck

NEW YORK — The agony of Gorazde confirms that United Nations member states lack the means, as well as the will, for collective enforcement of Security Council resolutions. The story is the same in Haiti, where leaky economic sanctions punish the wrong people, and in Somalia, where a dual-track command structure helped doom the military and humanitarian mission.

North Korea's acquisition of nuclear weapons would threaten the whole region, but enforcement of international norms will no doubt be left largely to the United States, turning a multilateral problem into a bilateral confrontation.

Half a century after the UN Charter outlined a plan for organizing the international use of military and economic power, nations are still experimenting with ad hoc responses to dangerous crises.

Bosnia is a sad case in point. With Washington, Brussels, Moscow and even the UN secretary-general seeking a piece of the action, the patchwork command structure is as unstable as it is awkward. By asking NATO to enforce Security Council

resolutions, a golden opportunity for Russian-American cooperation has been turned into a messy competition for influence and prestige.

While President Boris Yeltsin's last-minute dispatch of Russian troops to Sarajevo helped save face for him and the Serbs, it has encouraged the Serbs to use dividing tactics, playing East against West. It is becoming apparent that an alliance founded to contain Russian power cannot long serve as the enforcement arm of a Security Council over the decisions of which Russia has a veto.

The UN secretary-general has, unfortunately, been given the dicey and controversial task of deciding when air strikes should commence, something far beyond his responsibilities under the UN Charter. The enforcement provisions of the charter's Chapter VII never mention his office. The secretary-general's special assets as a neutral mediator would be compromised if he were to act simultaneously as commander in chief of forces involved in the conflict.

As an international figure, the secretary-general can offer a global perspective above the interests of individual states. Only national leaders can ultimately be responsible for the lives of their soldiers in warfare.

This charter-based division of labor would permit a neat "good cop, bad cop" relationship between the secretary-general and the Security Council. Just as the Clinton administration apparently has concluded that the State Department should address peacekeeping and the Defense Department peace enforcement, the secretary-general should oversee peacekeeping operations, while the troop-contributing countries, working through the Security Council and its Military Staff Committee, should coordinate combat operations.

In the schizophrenic Bosnia operation, where the Security Council has placed peacekeepers and humanitarian workers on the ground as it threatens war from the air, the secretary-general should be consulted to ensure the safety of UN personnel. It is the members of the council, however, who must shoulder the burden of working through the dilemmas aggravated by their

ambivalent and inconsistent policies. They cannot expect the secretary-general to compensate for their weak leadership, nor should he serve as their scapegoat.

Over time, the key is to build a system of year-round military cooperation, including joint training, exercising, long support, rules of engagement and contingency planning that parallel the NATO experience on a global basis. This is precisely what the UN Military Staff Committee — composed of the chiefs of staff of the five permanent members of the Security Council, plus other nations and regional subcommittees as needed — was supposed to do.

The Military Staff Committee was turned into a sleepy luncheon club by the Cold War. But an invigorated version could combine broad-based political legitimacy with professional military preparations for joint actions on those rare occasions when the Security Council members can agree on deeds as well as words.

National leaders would retain ultimate control over their forces under a UN flag, as they do in NATO, but the practice of year-round cooperation would make the United Nations

forces more credible and effective. And by activating regional subcommittees for the first time, UN enforcement actions in places as diverse as Korea, Kuwait, Haiti, Somalia and Bosnia could tip the participation of neighboring countries and regional organizations on a more consistent and clearly legal basis.

Prepared properly and undertaken selectively, military cooperation under the United Nations can lead to shared burdens, lower risks, reduced fears of American dominance and fewer misunderstandings with the Russians.

Recent cobbled-together improvisations are giving the goal of international cooperation a needless black eye. It is high time for the United States and its partners to show that they are serious about delegating the role of world policeman to the United Nations by developing the mechanisms for doing it right rather than using their absence as an excuse for inaction.

The writer is president of the United Nations Association of the USA. He contributed this comment to the International Herald Tribune.

This Espionage Iceberg Could Roil American Waters for Years

By Jim Hoagland

WASHINGTON — In chaos veritas. Out of the breakup of the Soviet empire emerge disturbing reports that Soviet penetration of the U.S. government during the Cold War was far greater than any but the most dedicated mole-hunters believed.

Using documents and defectors' accounts obtained since the fall of the Berlin Wall, U.S. counterintelligence agents have concluded that a dozen — and probably more — previously unidentified officials scattered across an array of government agencies operated with Soviet intelligence in the past two to three decades, senior U.S. officials tell me.

The investigations of these officials are in preliminary phases, but parallel the prosecution of Aldrich Hazen Ames, the former counterintelligence expert at the Central Intelligence Agency accused of having made millions by identifying Russian CIA informants who were then executed. If the fears of the spy-hunters are

justified, Mr. Ames is the tip of a very nasty iceberg that will roll government waters for years to come.

"The Ames case is not going to be unique," says an official with detailed knowledge of that prosecution and of the newer preliminary investigations. "There will be a reasonably steady diet over the next months" of disclosures of new spy cases involving agencies other than the CIA, and "there could be dozens of spy prosecutions over the next 10 years" of Americans who sold secrets to Moscow. "The collapse of the East German and Soviet services created an opportunity of great discovery for the United States," this official added. "Out of their files came a lot of stuff that has been turned over to the FBI to start chewing on."

For the population at large, new prosecutions for old spying may seem anticlimactic. The secrets that American citizens sold to Russian agents

did not alter the outcome of the Cold War, which ended by Soviet implosion. The new details of pre-Wall Fall espionage may be more dramatic than significant.

But for the people and institutions of the intelligence community already reeling under the impact of the Ames case and the accusations that the CIA was too lax in pursuing the spy with three last names, that is not the case. Their future could be significantly affected by a new wave of disclosures of Soviet moles who have worked elsewhere in the U.S. government.

These disclosures could spark a witch-hunt atmosphere in which compromised in government could be undermined. Instead of seeing new arrests as evidence of an old problem being cleaned up, Americans may construe the spy trials to come as new proof of contemporary negligence and incompetence.

CIA Director James Woolsey has made clear to congressional committees and in public statements his sentiment that the CIA is already getting a bum rap for not having seen Mr. Ames as a mole-candidate earlier. Counterintelligence is time-consuming, painstaking work that must be undertaken without the subject knowing that the net is closing around him or her, Mr. Woolsey argues.

Premature disclosure of investigation enabled the State Department diplomat Felix Bloch to avoid prosecution in the late 1980s. Under existing law, the only way the CIA could have obtained Mr. Ames's financial records was to notify him that it was doing so, a step which would have compromised the investigation that turned him up as a primary suspect in 1991 and had narrowed to him exclusively by May 1993.

The law is now almost certain to be changed to permit the agency to track the cash flows, investments and tax returns of employees, as a condition of employment. The administration will later this month offer its own legislation as an alternative to a bill proposed by Senator Dennis DeConcini, Democrat of Arizona, which has features that the administration supports and one major flaw.

The flaw is Mr. DeConcini's proposal in effect to put the FBI in charge of all counterintelligence, including overseas operations now run by the CIA. This risks setting the FBI up as a separate foreign intelligence agency and giving too much power to one agency in the government. Cutting the CIA out of foreign counterintelligence also could reduce the effectiveness of U.S. spy-chasing.

An intelligence community review of the major spy cases of the Cold War era, said to number 20 to 30, suggests that most often important leads on treason cases come from foreign intelligence links now handled by the CIA, according to one official. These sources include defectors, foreign liaison services and tip-offs about American secret information that has come into enemy hands.

The wave of spy cases that may soon come crashing into court will accelerate the drastic overhaul of U.S. intelligence and counterintelligence mandated by the end of the Cold War. Congress and the public must be careful not to throw the remaining viable parts of the intelligence apple out with the worms that have eaten into it.

The Washington Post.

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The Washington Post.

The Spy Games Continue

DESPITE the professed shock in Washington that the Russians continue to spy, most leaders understand that espionage did not end with the Cold War. It is a point made by a former CIA director, William Colby: "Before we get too morally indignant, let's realize the Russians were said to be using Mr. Ames to identify American spies in Russia. That meant we had those spies." Professional spies know that the game goes on.

— David Wise, commenting in The Washington Post.

Were Reds Under So Many U.S. Beds?

By William Safire

WASHINGTON — In the wake of charges that a high CIA official was a Russian "mole," an old question is being newly raised. How deeply did the Soviet Union penetrate the American government?

Through two generations, that is a question posed between liberals and conservatives. The liberals' villains were Joe McCarthy and Roy Cohn, and to a lesser extent Whitaker Chambers and Richard Nixon. Among the conservatives' villains were the diplomat Alger Hiss, the nuclear scientist J. Robert Oppenheimer and the Lillian Hellmans who defended them.

Judging by a damning book out Monday by Stalin's favorite hit man, it is going to be a tough year for "anti-anti-Communists."

Pavel Sudoplatov, author with his son of "Special Tasks," is a loathsome killer. On Stalin's orders, he arranged for the assassination of Leon Trotsky; he bled Beria and derides Khrushchev. Self-serving and untrustworthy he may be, but the 87-year-old spy is, as the editors Jerald and Leona Schecter write, "the surviving institutional memory of the Russian intelligence service's covert operations from the 1920s to 1953."

The news lead in the book, as excerpted in this week's Time magazine, is his detailed account of the way Mr. Oppenheimer, as well as Enrico Fermi and Leo Szilard, were enlisted as Soviet sources of information in the race to build the atomic bomb.

Although not Soviet contract agents, these great scientists were known sources for his KGB opera-

tives, reports Mr. Sudoplatov. Their motive in revealing secrets to Moscow — beginning with Mr. Oppenheimer's leak to the Soviets of Albert Einstein's original letter to Franklin Roosevelt — was not to betray the United States but to share information with Russian scientists to defeat the Nazis.

Not all America's top scientists aragated to themselves that momentous national security decision. The KGB tried and failed to attract George Kistiakowsky and Edward Teller.

Like Mr. Oppenheimer, Alger Hiss was not a paid or controlled agent, according to Mr. Sudoplatov; Mr. Hiss, KGB code name "Mars," was "very close to our sources . . . highly sympathetic . . . a source of agent information for the Silvermaster spy cell . . . his behavior followed instructions he may have learned in the 1930s: never admit anything."

To those interested in the Ames case, the most intriguing sentences in the book attribute an allegation to an 81-year-old friend of Mr. Sudoplatov's in military intelligence, unnamed because a son serves in government. "The retired GRU officer remembers that there was a controlled agent source of information in Roosevelt's office. He was Roosevelt's assistant on intelligence affairs, and he was on bad terms with William Donovan and J. Edgar Hoover, head of the OSS and the FBI, respectively."

Was there a Soviet mole in the Oval Office during World War II? The confessed Communist courier

Elizabeth Bentley identified Laughlin Currie, an economist, and Harry Dexter White, a Treasury assistant secretary, as writing sources, and fingered Duncan Chaplin Lee, a law partner and later assistant to the OSS's General Donovan, as an NKVD agent. (Mr. Lee, a descendant of Robert E. Lee, denied this under oath.) But nobody has suggested that a confidant of FDR's was a "controlled agent."

Assuming that Mr. Sudoplatov's secondhand, unsupported recollection is true, who could that early mole be? Two CIA historians I checked say the description (FDR assistant on intelligence, disliked by Donovan and Hoover) could apply to John Franklin Carter, a newspaper columnist and novelist (always a nefarious combination) who used the pen name Jay Franklin. He and a staff of six, on State Department payroll, supplied FDR with reports on Nazi leaders — and, at one time, an analysis of Soviet intelligence. He died in 1967, an ardent anti-Communist.

This fellow might have been a "controlled agent" or a patriot. As more documents and memoirs come out of the KGB woodwork, we will learn more — not just about FDR's day, but about more recent penetration agents in U.S. intelligence agencies.

Spooks lack the resultant reassessment "walking back the cat." Historians and biographers will have to reshuffle shibboleths about familiar villains and heroes. And among present and retired intelligence officers, "The Second Man" is getting worried. The New York Times.

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1894: Verdi's Success

PARIS — The most important event of the Paris season was certainly the production of Giuseppe Verdi's "Falstaff," at the Opera-Comique. In spite of the fact that "Falstaff" has already been played in Milan and other towns of Italy and Germany, it had not had the seal placed upon its merits by being played before a public unprejudiced by political and patriotic considerations. "Falstaff" can now march confidently to the conquest of the repertoire of all the theatres of the world, for the work of the great Italian master obtained a very great success.


1919: A Mexico Mandate?

WASHINGTON, D.C. — There is a growing belief here that if the League of Nations is adopted, the United States should become the mandatory for Mexico rather than for Turkey, Armenia or Albania, which are most frequently mentioned. The opinion prevails in Washington that, while it

might be irksome to send troops to Asia Minor, the public would be more willing to use an army to establish order south of the Rio Grande.

1944: Human Torpedoes

LONDON — [From our New York edition:] The Royal Navy's hitherto most secret weapon, the so-called human torpedo, sank an enemy cruiser and damaged a large transport at Palermo, Sicily's strongly defended naval base, in January, 1943, and has since accomplished other conspicuous feats, the Admiralty revealed tonight [April 18]. Officials described the human torpedo as the best-kept naval secret of the war so far. Two men, wearing diving suits, sit astride the torpedo and drive it to the target. On approaching the target the torpedo submerges. It is then guided beneath the enemy ship. There the explosive head is fixed to the bottom of the ship. A time fuse is set, giving the men time to get out of the danger zone, riding the headless torpedo.



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OPINION

Today's Balance of Power
Makes Rivals Out of Allies

By William Pfaff

PARIS — "I am not responsible for geography," Stalin told the Finnish government in 1938 as he demanded political concessions.

Geography has until our day been the fundamental factor in foreign policy. Dynastic conflict, disputed territorial claims, rivalry over resources, claims on ethnic minorities living across disputed frontiers, the straightforward desire for territorial aggrandizement — these have been the main nonideological causes of war.

Even imperial expansion was a form of territorial rivalry. Within Europe itself, national policy was driven by Hapsburg and Bourbon territorial claims, Napoleonic expansionism, Prussia's ambitions to dominate the other German realms and compete with Austria, its claims on Denmark, its seizure of Alsace

Power is now economic and cultural, lying in the success and good order of a nation.

and Lorraine in the Franco-Prussian war. Republican France's subsequent obsession with recovering those provinces, the Austro-German-Russian rivalry for influence over the territories breaking away from the Ottoman Empire and in revolt against Austro-Hungary's own authority.

American policy in the 19th century was motivated by the idea of Manifest Destiny on the North American continent, and, in the case of the war with Spain, the idea of Pacific empire.

Today power and influence no longer are linked to geography. The fact that Serbs and Croats are fighting to expand their national territories is generally taken by the rest of us as another proof that they are captives of ideas from the past. Now national power rests mainly on industry and finance, and on cultural influence.

During the period when the military reach of nations was limited, and the great powers occupied a relatively small part of the globe, policies of power balance made sense. Victory in war, or successful exploitation of the threat of war, required alliances that shifted the calculations of military and naval power. But what exactly does balance of power mean today?

If conflict is economic, what advantage is there in alliance with one potential rival against another? How does alliance, "balance," serve competitive economic interests?

The United States, Japan and the European Union are political and military allies, but they also are supposed to be economic rivals. They manufacture competitive goods and attempt to sell them in the same markets. The idea of economic alliance seems to make sense only as trading zones with barriers

against competition. Are Mexico, Canada and the United States in an alliance directed against the European Union and Japan?

It seems to me that a political vocabulary of power balance is often misapplied today, when commentators talk of alliances with Russia to "contain" China, or with China to "contain" Japan. Contain them from what? The industrial nations and trading blocs are rivals in certain respects, but they are also mutually dependent in that the prosperity of one relies on the general prosperity of the others. NAFTA and the economic recovery of the United States can only benefit from European and Japanese prosperity, since all are major markets for one another's goods.

Geopolitical rivalry is a zero-sum game in which gains by one require loss for others. Economic rivalry is a matter of marginal gains or losses within a context of general growth (or decline). In this situation, the traditional policy conception of power balance and power advantage is just irrelevant.

I do not say that classical issues of military and political rivalry and intimidation have vanished. Military power certainly remains relevant with respect to the dangers that would arise from anarchical breakdown, political retrogression or the rise of authoritarian nationalism in a nuclear Russia; or with respect to the threat of further breakdown in the Balkans, jeopardizing the stability of Albania, Macedonia and Greece and indirectly threatening West European order.

But the United States, Europe and Japan are not military rivals, and they are today's crucial powers. This means that military power does not have the significance it had before 1989. In this respect the United States, "the only superpower," is not as powerful as it was when Russia still was a global power and national power was generally measured in military terms. Military power does not generate employment and prosperity, and that is today's competition.

Effective world power is economic and cultural. It lies in the success and good order of a nation. The nation that can successfully combine economic success and prosperity with social justice will exercise the greatest long-term influence.

In that competition America's power is compromised by the international perception that, in significant respects, it is an unjust society, distinguished by violence, social disorder and decline. European influence is limited by its recent incapacity to create jobs and prosperity. Russia still has enormous power in raw military terms but has drastically lost influence because of its economic and political disorder. These are the new factors of power and weakness in world affairs.

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LETTERS TO THE EDITOR

Mussolini's Statecraft

In response to "Ally of Berlusconi Praises Mussolini as 'Greatest Statesman'" (April 2) by Alan Cowell:

Gianfranco Fini, the Italian rightist leader, states that Mussolini was "the greatest statesman of this century." I beg to disagree.

Mussolini was responsible for launching Italy into eight wars (against Ethiopia, Republican Spain, Albania, France, Britain, Greece, Yugoslavia, the Soviet Union and the United States) in six years. May I also remind Mr. Fini that "the greatest statesman" lost all his wars and/or all the territories acquired in those six years.

In so doing, Mussolini signed treaties of alliance with Hitler and the Japanese that were "aggressive," not "defensive," thus tying Italy to the Nazism of genocide and to the militarism of the attack on Pearl Harbor.

This is why I would give Mr. Fini an "F" in Modern History.

ALESSANDRO CORTESE DE BOSIS.

The writer, a former Italian ambassador, is president of the American University of Rome.

Effects of a Caning

Regardless of public opinion, the approaching caning in Singapore of Michael Fay, an 18-year-old American, will have the desired effect: deterrence. The media attention surrounding it has dramatically enhanced this effect. Singa-

pore no longer has the choice of rescinding the sentence. To do so would send a message that one can get away with it.

DAN LOCASCIO.

Ampong, Malaysia.

The Blackmun Legacy

Regarding "A Justice Busy 'Dealing With People'" (Opinion, April 8) by Ellen Goodman:

Harry Blackmun — "a man of justice" — was a man of justice for the millions of fetuses denied the right to come to term. A man of justice for all the women scarred by the memory of having ended the life in their wombs?

Justice Blackmun says he will carry the tag of "author of the abortion decision" to his grave. Indeed he will.

JAMES SWETNAM.

Rome.

America in Paris

Regarding "Paris American Center, With New Team, Plans June Opening" (Stage/Entertainment, April 6):

The glowing future of the Paris American Center portrayed in this article neglects the very dim future of the American Language Program, which was shut down on March 31. If "money" itself is not the problem, as an American Center official is quoted as saying, I wonder why teaching American English should not be a vital part of the new center.

For language professionals in Paris, as well as for students, it is a loss.

LINDA THALMAN.
Bouilly-les-Troux, France.

Revere's Midnight Ride, Revisited

By David Hackett Fischer

WAYLAND, Massachusetts — This Monday, Patriot's Day in America, was the anniversary of Paul Revere's ride in 1775. Every American has heard the story of that event; it is one of the shared memories that make us one people, diverse as we may be. But we haven't all remembered it the same way.

The best known version is still Longfellow's poem of 1861, written to help the Union cause. He celebrated the midnight ride as a solitary hero, galloping alone to Concord. On the eve of the Civil War, the poem carried its own message: The actions of a single individual can turn the course of history.

After the failure of Reconstruction, a war-weary generation found a different message in the storytelling of Mark Twain, who had a great contempt for history, observing that "every year the antiquarians shed new darkness on the past." In an 1877 speech in Boston, Twain cruelly mocked Longfellow's poem, in the presence of the poet. Twain's stories also had a moral: Beware of stories with morals.

The generation of Theodore Roosevelt turned the silversmith into a military hero, calling him "Colonel Revere." His purpose was to praise the martial virtues and celebrate selfless service to the nation-state.

That idea rang hollow after World War I, and a new breed of American, the historical "debunker," came into existence around 1923. Some debunkers delighted in demonstrating that Revere never reached Concord; others suggested that he never rode at all. The moral for the debunking historian: Distrust the facts of history.

The debunkers fell quiet in December 1941. Soon after, the hero of the midnight ride was revived by the novelist Esther Forbes in "Paul Revere and the World He Lived In." She made him into a "simple artisan" who rose nobly to great events. Her purpose was to celebrate the ordinary American in an hour of extraordinary peril.

With the crusade against communism in the 1950s, Revere was converted into a Cold Warrior — a capitalist on horseback personifying the union of business and democracy. In his 1954 book "History's Hundred Greatest Events," William De Witt celebrated the event in those terms, placing the midnight ride alongside the Crusades and the Korean War.

After Vietnam and Watergate, the mood changed again, and the myth of the midnight ride was attacked with fury. The old debunkers of the 1920s had come mostly from the right and, with a light touch, had made Revere a figure of fun. The new iconoclasts were of the left — they raged against America and made the rider a symbol of evil.

One iconoclast, the writer John Train, told The Washington Post in 1980 that Revere was a "despicable" man who "set out with two other guys for money... turned stool pigeon and betrayed his two companions." None of this was true, but a new American generation wanted desperately to disbelieve.

These divergent tales were the prod-

ucts of poets, novelists, humorists and politicians. Historians have shown remarkably little interest in the subject, a neglect that is all the more surprising when one considers the abundant sources that remained untapped.

Revere's ride was part of the "Lexington Alarm," an event long remembered with the same vivid clarity with which Americans recall the afternoon of President John Kennedy's death and the Sunday of Pearl Harbor. More material — diaries, pension records, legal depositions, British officers' reports — sur-

vives from the Lexington Alarm than from any other event in early America. This evidence shows that the filiofietists and iconoclasts were far off the mark.

Paul Revere was not a "simple artisan," but a figure of remarkable complexity — the complexity of the nation he helped to create.

He was second-generation American on one side and old-stock Bostonian on the other, and his correspondence makes clear that he cherished both beginnings. He was the product of a Puritan City on a Hill and a lusty Atlantic seaport, both being the same American town.

He thought of himself as an artisan and a gentleman without the slightest contradiction — a new American attitude toward class.

He believed passionately in the rule of law, but did not hesitate to take the law into his own hands. He helped start a revolution, but his purpose was to preserve the values of the past.

Revere believed deeply in freedom but not in our modern conception of private rights, personal autonomy and individual entitlement. He and his friends wrote of their personal liberty and of the "liberty of Boston" and the "liberty of America," adding an idea of collective rights and individual responsibility.

He was an associating man, very different from Longfellow's historical loner. The Whig movement comprised many isolated, dissident organizations. A study of seven major revolutionary groups in Boston shows that of 255 total members, 83 percent belonged to only one group. Only two men joined as many as five: Paul Revere and Joseph Warren, a physician who became a colonial general and was killed at Bunker Hill. They moved in more circles than any other Boston leaders and became linchpins of the Revolution. It was Revere's many connections that made him so useful on April 18, 1775.

In Boston, he organized a complex intelligence network that repeatedly disrupted British plans. Throughout New England, he met with town leaders to create an alarm system. To warn of British movements, he arranged the display signal lanterns from Boston's tallest building — no easy task, as the Old North Church had a Tory minister. But Revere knew a Whig sexton and vestryman.

He found a way to carry the warning across the Charles River even though the British had seized all Bostonians' boats and blocked the way with warships. Revere organized a group of watermen who helped him escape, and his friends in Charlestown found him a horse that outraced his British pursuers.

More than 60 riders helped him spread the Lexington Alarm that night. He did not diminish Revere's role, for he set them in motion.

Paul Revere had other adventures that night. He was captured by a British patrol and released around three o'clock the next morning, in time to help John Hancock and Samuel Adams flee the British. At 4 A.M., he and an accomplice, John Lowell, rescued secret papers that Hancock had left in Lexington. At five o'clock, Revere was present on Lexington Green when the first shots were fired.

The fighting was not, as most Americans have been taught, a spontaneous rising of individual farmers. It was a tightly organized effort.

In the morning, the Massachusetts militia stood eight times in close formation or fixed positions against British regulars. Twice the British were broken.

In the afternoon, when the British force grew to a brigade with artillery, the colonists changed tactics. They surrounded the retreating British troops with what the British commander, Lord Percy, called "a circle of fire" and held it for four hours — no small feat of combat leadership.

Afterward, Revere helped organize the second battle of Lexington and Concord — the contest for popular opinion. The Whigs of New England spread their version of events throughout America and Europe before the British government knew what had happened. This victory proved more decisive than the fighting itself.

Revere had a genius for collective action in the cause of freedom — a paradox closer to the heart of American history than the loners we love to celebrate and delight in debunking.

Americans on the political left might do well to remember the cause of freedom. Those on the right might reflect on the idea of collective action.

Patriot's Day is an official holiday only in Massachusetts and Maine. Perhaps it should be made a national holiday. When Paul Revere alarmed the Massachusetts countryside, he carried a message for all.

The writer, professor of American history at Brandeis University, is author of "Paul Revere's Ride" and "Albion's Seed." He contributed this comment to The New York Times.

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MEANWHILE

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BOOKS

SHADE OF THE RAIN-
TREE: The Life and Death
of Ross Lockridge Jr., An-
thor of "Raintree County"

By Larry Lockridge. 499 pages.
\$27.95. Viking.

Reviewed by
Scott Donaldson

ON Jan. 5, 1948, Ross Lockridge Jr.'s first and only novel, "Raintree County," was published. The book, an unabashed attempt at the Great American Novel that ran to more than 1,000 pages, was an extraordinary success. It won the \$50,000 MGM novel prize, was excerpted in Life, and was chosen as a main selection of the Book-of-the-Month Club. Two months later, Lockridge went out to his garage in Bloomington, Indiana, turned on the motor of his new Kaiser, and asphyxiated himself. He was 33 years old.

His suicide made the front page of The New York Times, and for a time author and book alike stayed in the news. Later the same month, the Philadelphia vice squad impounded copies of the novel as "obscene and blasphemous" (it's neither). In 1957 MGM made a bad film of the book with a good performance by Elizabeth Taylor. In his 1974 dual biography, "Ross and Tom," John Leggett compared Lockridge to Thomas Heggen, the young author of "Mister Roberts," whose death in 1949 was an apparent suicide.

By 1992, "Raintree County" was out of print and Ross Lockridge Jr. all but forgotten. His son Larry's "Shade of the Raintree" undertakes to bring both back in an authoritative biography that will correct what he calls Leggett's "novelization" and restore his father's reputation. (In Leggett's portrait, Lockridge is a humorless and egotistical Midwestern bumpkin; his suicide is explained in sociological and Freudian terms.)

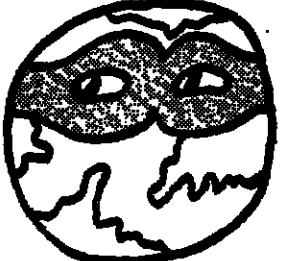
Ross was the youngest of four surviving children — an older brother had drowned on a Boy Scout outing — and very much the child of his parents. His father, Ross Sr., fashioned a career for himself as a popular historian of Indiana. He brought up Ross Jr. on heroes and heroism, and by the

WHAT THEY'RE READING

• Anthony Sampson, author, is reading "Newsmonger" by William Gibson.

"I think he writes marvelously, and he gives a terrifying but quite convincing picture of a future dominated by criminal multinationals. It is maybe not the way the world will emerge, but nevertheless it is quite an interesting warning."

(Barry James, IHT)



time the boy was 15 had enlisted him as a working partner as the history show went on the road. Young Rossie took dictation, memorized speeches, and wrote copy on demand. At 23, he tossed off 1,300 lines of blank-verse doggerel in a week to fulfill a commission for a poem in New Harmony.

Ross Sr. produced several home-spun volumes on Indiana's past, but his one attempt at a novel was a failure.

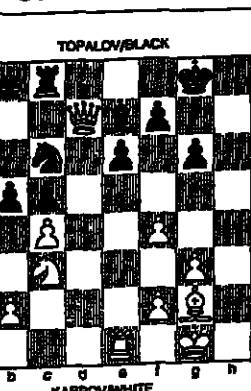
Elsie Lockridge was a frustrated fiction writer, too, who transferred her ambitions to her son. An idealist and Christian Scientist, she demonstrated little affection for her children; they felt she valued them more for their accomplishments than for themselves.

To his father, Rossie was a convenient resource to be used. To his mother, he represented a second chance at the recognition she yearned for. He did everything he could to please them. He neither drank nor smoked and was active in religious organizations. Though obviously a young genius, he was popular with other students, serving as class president both in his junior and senior years at Bloomington High School. He won state championships for his shorthand and typing skills, and at Indiana University earned his letter for cross-country while compiling the highest grade-point average ever recorded there. He was a finalist for a Rhodes scholarship, and then — married to his high-school sweetheart — proceeded to Harvard on a graduate-school fellowship. As an English teacher at Simmons College, he was much admired by his female students, one of whom thought it a shame that someone who looked a little like Tyrone Power was so goddamned uxorious.

When Topalov tried to chase away the queen bishop with 10...Nh5, Karpov allowed it to stand and be exchanged for a knight with 11...e3? Nf4 12...e4. He had acquiesced in doubled f pawns, but his grip on the center was perhaps even enhanced by the transaction. Moreover, with the defensive strong black king knight gone, there was nothing to impede him from loosening the enemy king position with 15...h4, 16...h5 and 17...h6.

Topalov should have asked himself why Karpov did not lift a finger to prevent the counterattack with 16...b5, standard in such situations. He got the answer quickly enough: 17...hg 18...Ne5! Now, 18...Bc8 19...Na6! Rg6 20...cb Rb6 21...b2 wins a pawn for White because 21...Rb2? falls into a fatal trap with 22...c7! Qb6 23...Qb2 Qb2 24...c8/Q.

CHESS



Position after 19...Rc8

The Bulgarian relied on 18...dc 19...Qd7 Rc8, ready to counter 20...Bc7? by 20...Ra7? But Karpov struck a tremendous blow with 20...Re6!, after which 20...fe 21...Qe6 Kg7 22...Bc6 will cost Black material.

Thus, Topalov tried 20...Ra7 but was immediately hammered by 21...Rg6! He could not refuse the rook with 21...Kh7 because 22...Qh3! Kg6 23...Be4 f5 (or 23...Kg7 24...Qf7 Kf8 25...Qh8 mate) 24...Bf5 Kg7 25...Qh7 Kf8 26...Qh8 Kf7 27...Bc6 wins material while maintaining a decisive mating attack.

After 21...fg 22...Qe6 Kg7 32...Bc6

uxorious he was, and also, according to his son Larry, "even-tempered, witty, helpful, unsmoking, faithful to his wife, hard-working, once described as 'an unusually affable genius,' who befriended the blind and in passing rescued at least three people, one drowning, one fainting, one marooned."

He was also driven by an obsessive idea — that he could, and would, write a great book. It took him eight years, and a couple of false starts, but finally he completed the first draft of "Raintree County." On April 24, 1946, he stuffed his 2,000-page manuscript into a suitcase and delivered it to a startled receptionist at Houghton Mifflin.

Lockridge was never happier than when working on the book, and never quite right afterward. His tortured dealings with his publisher and subsequent descent into depression make an unhappy but fascinating story, and Larry Lockridge tells it well, using the family records and other materials he dug out in his own long preparation for this biography. For half its length, "Shade of the Raintree" is workmanlike and sometimes dull, but the last 200 pages are first-rate. In his breakdown and collapse Ross Lockridge Jr. comes fully alive on the page.

Scott Donaldson, who has written lives of Ernest Hemingway, Scott Fitzgerald, John Cheever and Archibald MacLeish, wrote this for The Washington Post.

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A high-contrast, black and white photograph of a woman. She is wearing a dark fur hat and large, round goggles. She is holding several small, light-colored dogs, possibly huskies or similar breeds, against her chest. The background is dark and textured, possibly snow or a rough surface. The image has a grainy, high-contrast quality.

Under the Tents, A Husky Debut

Suzy Menkes

OR is there more to the middle of the body than meets the eye? Exhibition at Martin, Custum of the exhibition at the Met's Costume Institute, sees the waist as "an exceptional area" of the body — a malleable zone, unprotected by bone — in which it is possible to take control. A fashionable waist becomes not just a fashion symbol, but also a personal statement. It can even be an erotic zone, and Martin, in the scholarly essay in the exhibition catalogue, quotes Edmund Waller's 1664 love poem "On a Girdle," in which the lovelorn poet envies "that which her slender waist confin'd."

"Waist Not" at the Metropolitan Museum of Art until Aug. 21.



Clockwise from top left, designs by Mizrahi, Donna Karan, Richard Tyler and Carolina Herrera.

Giulio Cappellini at his new store; Vico Magistretti chair; Antonio Citterio chaise.

lorium, the hospital and the schoolroom. It is a back-to-basics, non-nonsense aesthetic, which could be called "the new Puritanism." "Simple." "clean." "fresh," even "anti-

Citterio's room settings at B&B Italia are oases of perfection. And his Zanussi collection of seating

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✓ ✓ Cambodia (Phnom Penh) 90-05-01	✓ ✓ Guatemala 195	✓ ✓ Liechtenstein 195-7777	✓ ✓ Philippines (PhilCom) 005-01
✓ ✓ Cambodia (Phnom Penh) 2310	✓ ✓ Honduras 001-800-1213000	✓ ✓ Lithuania 800-877	✓ ✓ Philippines (PhilCom) 005-01
✓ ✓ Canada 1-800-877-5000	✓ ✓ Hong Kong 800-877	✓ ✓ Luxembourg 0800-0115	✓ ✓ Poland 000-121
			✓ ✓ Portugal 0800-008
			✓ ✓ Puerto Rico 95-900-877-0000
			✓ ✓ Romania 00+0007
			✓ ✓ Russia 1-895-453-4633
			✓ ✓ Russia (Moscow) 00+0007
			✓ ✓ Saigon 1-235-0333
			✓ ✓ St. Kittin and Nevis 1-235-0333
			✓ ✓ San Marino 172-877
			✓ ✓ Saudi Arabia 000-15
			✓ ✓ Singapore 00+00-1-777
			✓ ✓ South Africa 000-999-0001
			✓ ✓ Spain 001-494-1013
			✓ ✓ Sri Lanka 807
			✓ ✓ Sweden 020-799-081
			✓ ✓ Switzerland 155-777
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			✓ ✓ Thailand 001-999-13-877
			✓ ✓ Trinidad & Tobago 21
			✓ ✓ Turkey 00800-1-4777
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AS - Australian Dollars; AU - Australian; BF - Belgian Franc; CA - Canadian Dollars; CH - Swiss Franc; C\$ - Canadian Dollars; DM - Deutsche Mark; ECU - European Currency Unit; FF - French Franc; FL - Dutch Florin; S\$ - Singapore Dollar; SF - Swiss Franc; SFr - Swiss Franc; T\$ - Taiwan Dollar; US\$ - US Dollar; Y\$ - Yugoslav Dollar

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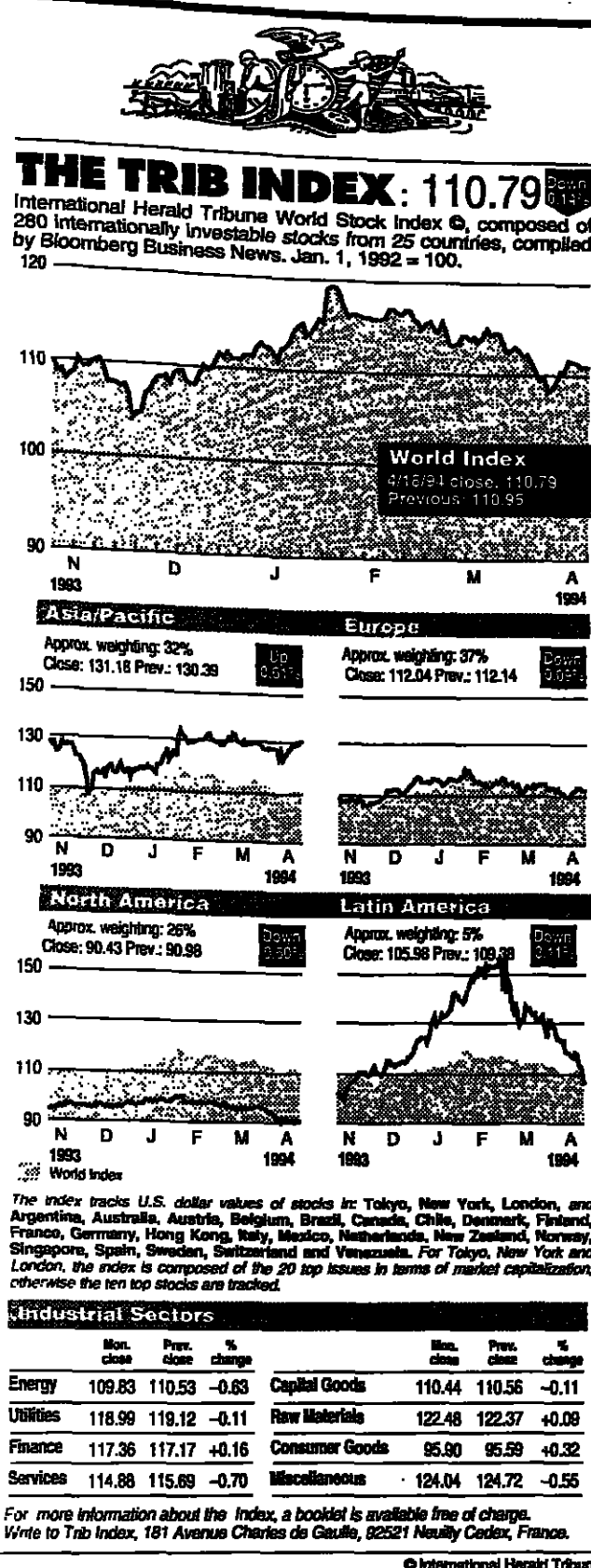
Asia & the Pacific

Singapore June 15 & 16

Herald Tribune The Oil Daily Group

(11-12, 333 671)

مكتبة الأعمال



Greenspan Touches the Interest-Rate Brakes Again

By Lawrence Malkin
International Herald Tribune

NEW YORK — Determined to keep on top of inflation even before it reappears, the Federal Reserve Board chairman, Alan Greenspan, pushed up banks' cost of money on Monday. Leading banks responded by making loans more expensive for a wide range of customers.

Financial markets reacted to the Fed's increase in short-term interest rates with considerably less frenzy than they did to its two small tightening moves since Feb. 4. This, analysts said, indicated investors were getting used to the idea that the central bank will keep raising rates until the U.S. economy's growth slows.

"The Fed is not on some mission to cream the economy," said Sam Kahn of Fuji Securities. "It's like driving a car down a steep hill. You can slam on the brakes or just keep giving them a touch. They don't want to throw the economy off the road."

Still, after the Fed guided the federal funds rate a quarter point higher, to 3.75 percent, leading banks announced a half-point rise in the prime rate that they charge some of their best customers, a move likely to cut into demand for consumer and business loans that are pegged to the prime.

The increase, to 6.75 percent from 6.25 percent, was announced by such major banks as Citicorp,

Chemical Bank, Bank of New York and Banc One of Columbus, Ohio.

"Since businesses are on balance debtors, this will reduce profits," Robert Dederick, chief economist at Northern Trust in Chicago, told

each other on overnight loans, is now three quarters of a point above the 3 percent where it stood when the squeeze started. The upward movement has gone more than halfway toward what is believed to be the Fed's goal of 4 to 4.5 percent. This means more to come — probably at the next meeting of the policy-making Federal Open Market Committee on May 17.

What the Fed seems to be targeting now is not directly inflation but an unexpected speeding in the economy, which grew at an annual rate of 7 percent during the last quarter of 1993 and did not slow as much as expected during the first quarter of this year. Growth in gross domestic product now is estimated to have been at about 4 percent, while the

Fed's preferred growth range is just below 3 percent — along a trend that it believes will relieve pressure to raise prices and wages. Hitting that economic sweet spot is just as hard in finance as it is in tennis.

Most on Wall Street had expected the central bank to wait until its next scheduled meeting May 17 to raise rates, but one who did not was John Lipsky, chief economist of Salomon Brothers Inc., who correctly predicted in his weekend market letter the central bank would move before then.

Mr. Lipsky noted that when the Federal Open Market Committee met in February, its growth fore-

See RATES, Page 12

Carmakers Find It's a Sellers' Market

Rising U.S. Demand Catches Dealers With Empty Lots

By James Bennett
New York Times Service

DETROIT — What had seemed a stately recovery in the auto market turned into a boom this year, and some dealers' lots are emptying even as automakers are piling on the overtime to raise production. Particularly for buyers of four-wheel-drive vehicles and other light trucks, the wait for vehicles with the options they want can stretch beyond three months.

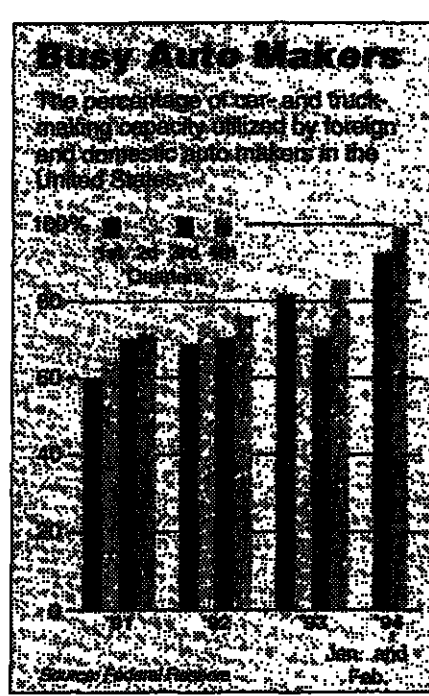
"I don't know how anyone could have anticipated the strength of this market," said Ron Sobrero, general sales and service manager for the Chevrolet division of General Motors Corp., which has long waiting lists for everything from sporty Camaro coupes and convertibles to the colossal Suburban station wagons.

As dealers sense a sellers' market, the prices customers pay are rising, in some cases over the sticker price. Economists predict that the impact on the overall inflation rate is likely to be mild. But the government says its method of calculating inflation may not fully reflect the surging interest in pickup trucks, minivans and four-wheel-drive vehicles.

Shortages in the auto industry, which occurred in other economic recoveries in the 1970s and 1980s, illustrate the strength of the economy, said David L. Littmann, economist with Comerica Bank.

"It's highly significant, because it represents perhaps most clearly the confidence of the consumer," he said.

In February, for the first time since the government began tracking the data, the American auto industry was operating at more than 100 percent of existing factory capacity for



used more than 92 percent of their factories.

After the brutal plant closings of the 1980s, the automakers were reluctant to expand, an attitude that auto industry analysts say is healthy.

"In the very short term, it's a small problem, but generally speaking I think it's a good thing," said John Casasa, the auto industry analyst for Wertheim Schroder & Co. in New York. "The guys who run the Big Three recognize that this will not last, and they're not going to rush out and build new plants."

The domestic automakers are caught in a bind. Because American and Japanese plants in the United States can make only so many cars and trucks, sales growth is likely to slow this spring.

But while they are scrambling to bolster worker productivity and eliminate production bottlenecks, the companies are loath to add the factory space that is so costly to idle later.

Switching over an existing plant to assemble a new vehicle — let alone building a new factory — is a lengthy, expensive proposition. For example, to make more of its popular Explorer sport-utility vehicles, Ford Motor Co. plans to outfit a St. Louis assembly plant that now makes a rear-wheel-drive minivan. To make the switch, part of the plant will shut in August; the first Explorer is not scheduled to roll off the line until January 1995. Ford, which many analysts regard as one of the world's most efficient automakers, says the changeover will cost \$400 million.

By raising the prices of Japanese imports well above their American-built rivals, the strong

production of cars and light trucks. By paying more overtime and taking other steps, the auto makers say they can write out vehicles at a rate of 120 percent of capacity.

In November 1978, the record for capacity utilization before January 1994, automakers

See CARS, Page 13

'Phantom' Trades Cost GE's Kidder \$210 Million

Bloomberg Business News

NEW YORK — Kidder, Peabody & Co. said Monday it would take a \$210 million charge against first-quarter earnings because its head government bond trader had made "phantom" trades of U.S. Treasury bonds that inflated profits.

The General Electric Co. subsidiary, which said it would post a first-quarter loss as a result, said it had fired the trader, Joseph Jett, and given six other employees "special assignments" until it completed an investigation.

John F. Welch Jr., the GE chairman, called the false trades a "reprehensible scheme" that violated "everything we believe in and stand for."

the highest at the firm," Mr. Carpenter said.

Kidder executives said they did not know by how much Mr. Jett's alleged activities had inflated earnings.

Mr. Carpenter said the false trades had been entered in the company's own accounts and did not involve any Kidder clients. He also said they were unrelated to trading in mortgage-backed bonds or derivatives — securities backed by other assets,

The false trades violated 'everything we believe in and stand for.'

John F. Welch Jr., GE's chairman.

including bonds — or to general market conditions.

Kidder said it had learned the extent of Mr. Jett's trading late last week while trying to reconcile records of the firm's trades in Treasury strips.

"In the scheme, a large number of phantom trades were entered over more than a year, creating paper profits unrelated to trading performance," Kidder said.

Mr. Jett allegedly was able to profit from an accounting feature of Kidder's trading system that recorded the difference between the current price of a strip security and its future value as a profit.

To take advantage of that, a Kidder executive said, Mr. Jett sold forward contracts — or promises to buy or sell strips at a designated price on a set date — and then purchased the actual securities.

That was profitable because zero-coupon bonds become more valuable as their maturity approaches.

Thinking Ahead / Commentary

Better German Leadership Than None

By Reginald Dale
International Herald Tribune

WASHINGTON — What Europe needs is a 1950s revival — in terms of political leadership, that is. In the aftermath of World War II, a group of visionaries started the drive to European unity in order to make future wars in Western Europe impossible.

Now the Cold War is over and the continent's overriding historical imperative is to ensure Europe is never divided again. But most Western Europeans are bogged down in their own domestic problems and are lamentably failing to rise to the occasion.

The fact is that the only place where Europe looks like finding the leadership it needs — for better or worse — is Germany.

Today's German leaders may not be the Fathers of Europe of the 1950s. But, whether in government or opposition, they at least see that it is urgent to bring Central and Eastern Europe into the Western fold.

Others, especially in France and Britain, suspect that Germany is championing the Union's eastward expansion for essentially selfish reasons: to establish a huge zone of German influence in central Europe. They are at least partly right.

But in this case Germany's interests and those of Europe coincide. Particularly to the East of the old Iron Curtain, there is growing realization that if Germany does not accelerate the move to a truly united Europe, the historic opportunity may be lost.

With NATO membership ruled out for the foreseeable future, the Central and Eastern European countries have come to see the European Union as their main lifeline to the West. And Germany, unlike Britain, is proposing

what the ex-Communist nations want, a tightly integrated union from which it would be difficult to dislodge them.

Ironically, the much-maligned bureaucrats of the European Commission have been quicker to grasp the scale of the challenge than most of the Union's politicians.

The Commission plans to exploit Germany's presidency of the Union in the second half of this year by launching a drive to

Bonn politicians understand that it is urgent to bring Central and Eastern Europe into the Western fold.

broaden and strengthen the Union's links with the East.

Despite much criticism of the European Union, two points need to be made clear: The trade treaty so far secured the Central and East Europeans is not as miserly as is often made out, and there is unfortunately no way Moscow's former satellites can be given immediate Union membership.

The Central and East European countries could not yet begin to apply EU rules in fields like competition policy, agriculture and the environment, let alone economic and monetary policy.

The Union has to prepare carefully for expansion if it is not to endanger the gains of the past 40 years. It already has to absorb up

to four new members — Austria, Sweden, Norway and Finland — next year.

But there is an urgent need for what Brussels officials call a "pre-accession strategy" that would both prepare the Central and East European countries for membership as rapidly as possible and let Moscow know they are already being incorporated irrevocably into the West.

The 12 Union governments should stop dragging their feet over promises to hold joint ministerial meetings with the Central and East Europeans on everything from foreign policy to new transportation links. For those applying for membership, as Hungary and Poland did this month, the Union should make it abundantly clear that entry procedures are already under way.

The East Europeans can help by making their laws conform with those of the Union and starting to align their economic and monetary policies. Now that they have negotiated free-trade pacts with the Union, they should introduce free trade among themselves.

All governments, both East and West, should begin thinking on a Pan-European scale. They should start tackling common problems — such as agriculture and steel — as if the Union already included at least the six Central and East European nations (Hungary, Poland, the Czech Republic, Slovakia, Bulgaria and Romania) that have been promised future membership.

Meanwhile, if they cannot lead themselves, the other EU members should swallow their qualms about German leadership. It is much better than none. In this case, like General Motors and America, what is good for Germany is good for Europe, too.

GEC Alsthom Clinches Korean Train Contract

Bloomberg Business News

PARIS — GEC Alsthom signed a 12 billion French franc (\$2.05 billion) contract on Monday to equip a high-speed rail line in South Korea in a victory that analysts said would do more good to its image than to its balance sheet.

The Franco-British engineering company, a joint venture between Alstom of France and General Electric Co. of Britain, and the Korean High-Speed Rail Construction Authority said they signed a letter of intent on the equipment for a line extending 432 kilometers (270 miles) between Seoul, the capital, and the port of Pusan.

It capped months of tough negotiations in which GEC Alsthom, declared "preferred bidder" last August, cut its initial bid by at least 10 percent. South Korean companies will receive orders accounting for at least half the value of the contract. They include Hyundai Precision & Industries Co., Daewoo Heavy Industries Co., and Hanjin Heavy Industries Co.

Pierre Suard, chairman of Alstom, said the company was not losing money on the contract.

"Of course not," he said. "Had that been the case, we wouldn't have gone for it."

He said that GEC Alsthom would be able to maintain its initial profit margin because South Korean companies have a larger share of the contract than originally planned and this means that construction costs will be lower.

Analysts were concerned, however, that the transfer of technology stipulated in the contract might allow the South Korean companies to compete in a few years with GEC Alsthom for fast-train contracts everywhere in the world except in Europe and North America.

The agreement, which is to be signed after the South Korean government formally approves it in May, marks the end of an intense three-year struggle between GEC Alsthom and Siemens AG.

When GEC Alsthom said last August that it had provisionally won the contract, it valued it at \$2.4 billion. The value announced on Monday showed that GEC Alsthom granted South Korea a significant rebate.

"We were able to lower the price tag by having the German competitor in the race until the final moment of negotiations," said Kim Jin Tae, a spokesman of the Korean High-Speed Rail Construction Authority.

Economic Growth Ebbs In China

Compiled by Our Staff From Dispatches

BEIJING — Economic growth in China slowed in the first quarter of the year but prices soared, throwing into doubt the feasibility of the government's goal of keeping growth and inflation below 10 percent this year.

The government said Monday that gross domestic product rose 12.7 percent in the first quarter, to 862 billion yuan (\$99 billion), compared with 14.1 percent in the corresponding period last year and 13.4 percent for the whole of 1993.

The slowing was mostly caused by weaker industrial growth and more reasonable levels of fixed capital investment, said Ye Zhen, a spokesman for the State Statistical Bureau.

Fixed capital investment — largely responsible for last year's oversteering of the economy and the resulting austerity measures — grew by 36.2 percent, which was half the speed of the same period last year.

"Economic growth has indeed slowed slightly," said a Western diplomat who specializes in economics. (AFP, Reuters)

CURRENCY & INTEREST RATES

April 18											Eurocurrency Deposits											April 19	
Cross Rates																							
	£	DM	FF	Lira	D.F.	S.Afr.	Yen	CS	Peso		Dollar	D-Mark	Swiss Franc	Sterling	French Franc	Yen	ECU						
American	1.3525	2.4618	1.2255	3.3777	0.4935	1.3225	1.863	1.327	1.351		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
British	1.0000	1.7525	0.9365	2.1194	0.824	1.0000	1.4161	1.0591	1.028	1.327	1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
French	1.7115	2.5121	1.0000	2.6922	1.3365	1.4811	2.0000	1.4514	1.2114	2.5854	3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
German	0.7312	1.0000	0.5400	1.4811	0.5760	0.7312	1.0000	0.7312	0.5400	1.0000	6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Italian	1.3673	2.6518	1.5140	3.3835	0.8569	1.7472	2.3667	1.9210	1.3205	2.6111	1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Japanese	0.0075	0.1329	0.0675	0.2461	0.0376	0.1329	0.0075	0.0075	0.0675	0.1329	3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Spanish	1.6115	2.6518	1.5140	3.3835	0.8569	1.7472	2.3667	1.9210	1.3205	2.6111	6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swedish	1.4615	2.6518	1.5140	3.3835	0.8569	1.7472	2.3667	1.9210	1.3205	2.6111	1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swiss	1.4615	2.6518	1.5140	3.3835	0.8569	1.7472	2.3667	1.9210	1.3205	2.6111	3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Turkish	1.8000	3.2400	1.8000	3.2400	1.8000	3.2400	1.8000	3.2400	1.8000	3.2400	6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
U.S. Dollar	1.0000	1.7525	0.9365	2.1194	0.824	1.0000	1.4161	1.0591	1.028	1.327	1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Yen	1.3525	2.4618	1.2255	3.3777	0.4935	1.3225	1.863	1.327	1.351		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Other	1.3525	2.4618	1.2255	3.3777	0.4935	1.3225	1.863	1.327	1.351		6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Sources: Reuters, Lyons Bank											Rates applicable to interbank deposits of \$1 million minimum (per equivalent)												
Key Money Rates																							
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years		Discnt rate	Close	Prev.	British	Bank time money	5 1/2	5 1/2						
American	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
British	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
French	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
German	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 year	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Italian	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		2 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Japanese	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Spanish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		4 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swedish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		5 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swiss	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		10 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Turkish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Other	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Sources: Reuters, Lyons Bank											Rates applicable to interbank deposits of \$1 million minimum (per equivalent)												
Other Dollar Values																							
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years		Discnt rate	Close	Prev.	British	Bank time money	5 1/2	5 1/2						
American	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
British	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
French	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
German	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 year	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Italian	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		2 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Japanese	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Spanish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		4 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swedish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		5 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swiss	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		10 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Turkish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Other	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Sources: Reuters, Lyons Bank											Rates applicable to interbank deposits of \$1 million minimum (per equivalent)												
Forward Rates																							
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years		Discnt rate	Close	Prev.	British	Bank time money	5 1/2	5 1/2						
American	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
British	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
French	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
German	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 year	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Italian	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		2 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Japanese	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Spanish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		4 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swedish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		5 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swiss	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		10 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Turkish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Other	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Sources: Reuters, Lyons Bank											Rates applicable to interbank deposits of \$1 million minimum (per equivalent)												
Gold																							
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years		Discnt rate	Close	Prev.	British	Bank time money	5 1/2	5 1/2						
American	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
British	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
French	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		6 months	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
German	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 year	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Italian	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		2 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Japanese	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		3 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Spanish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		4 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swedish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		5 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Swiss	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		10 years	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Turkish	3.75	4.00	4.25	4.50	5.00	5.50	6.00	6.50	7.00		1 month	3 1/4-3 1/2	5 1/4-5 1/2	3 1/4-4 1/4	5 1/4-5 1/2	2 1/2-3 1/2	2 1/2-3 1/2						
Other	3.																						

MARKET DIARY

Blue Chips Plunge As Rate Rise Bites

Compiled by Our Staff From Dispatches

NEW YORK — U.S. stocks slid Monday after the Federal Reserve Board pushed up interest rates for the third time since Feb. 4, dashing hopes that first-quarter earnings would spark a rally anytime soon.

"The Fed has ensured that this sort of Chinese water torture will continue," said Eugene Peroni, an analyst at Janney Montgomery Scott. "Such policy can only contribute to continued instability of the stock market."

The Dow Jones industrial average plunged as much as 47.59 points, to a low of 3,613.88, before recovering slightly to close at 3,620.42, down 41.05 points for the day. The Dow Jones industrial average has fallen about 9 percent from its all-time high on Jan. 31.

The yield on the benchmark 30-year Treasury bond surged as high as 7.43 percent before settling back to 7.41 percent. It had closed on Friday at 7.29 percent.

Losers outnumbered gainers by 13 to 4 on the New York Stock Exchange and volume totaled 271.45 million shares, down from 308.13 million on Friday.

"I think that just like the first Fed tightening was well-publicized, this one too has been well-publicized and well-forecast," said Gail

Dudack, chief technical analyst at S.G. Warburg & Co. "We expect stocks will follow bonds" over the next few days, she said.

The decline was led by shares of General Electric, which fell 1% to 94% after its Kibler, Peabody brokerage unit said it would take a first quarter charge.

Mr. Brown said he still expected first-quarter earnings to be strong, but that many companies' stock prices already reflect earnings optimism. "Some of them will be pretty good, but a lot of that has already been discounted," said Mr. Brown. "I am not sure where we can go from here."

Companies expected to release earnings this week include General Dynamics, Kellogg, Sears Roebuck, Westinghouse Electric, Bristol-Myers Squibb, and Blockbuster Entertainment.

Among other notable losses, United Technologies Corp. slumped 1% to 64% after it reported earnings of 71 cents a share in the first quarter, up from 42 cents a year earlier.

Shares of McDonnell Douglas countered the current and rose 2% to 114% after the company said earnings showed a strong gain.

Platinum Software shares collapsed, falling 6 7/16 to 39 1/16. The company said it expected to post a "substantial" loss in its third quarter and would restate earnings for the five previous quarters.

(Bloomberg, Knight-Ridder)

RATES: Fed Tightens a Notch

Continued from Page 11

cast for the year was 3 to 3.25 percent, "and it's now clear that there's more juice in there, which means they had almost certainly failed to achieve their goals, so they had to move quickly to maintain credibility."

A Fed spokesman said Mr. Greenspan made the decision on his own after consulting members

by telephone but not bothering to call for a vote. He thus publicly asserted his authority and deliberately contradicted rumors and some published reports that he had fallen under the thumb of his own committee and could not act without it.

Henry Kaufman, the Wall Street money manager who used to be known as Dr. Doom, said he expected the federal funds rate to stand at 4.5 percent at the end of the year, "but that won't be the end of the world."

"It will not stop the economic advance," he added. "The private sector and households have worked down their debt, and it's still cheaper to borrow at short rates than long."

The dollar weakened against the yen on concerns regarding the U.S. Treasury's perceived desire to see the dollar fall further against the Japanese currency. This sentiment persists despite protestations by Treasury Secretary Lloyd Bentsen over the weekend that the United States is not seeking to manage foreign-exchange rates.

(AP, Bloomberg)

(AP, Bloomberg)

Via Associated Press April 18



THE DOW JONES INDUSTRIAL AVERAGE

1985 1990 1994

NYSE Most Active

Vol.	High	Low	Last	Chg.
IBM	110 1/2	110 1/4	110 1/2	+1/4
Microsoft	52 1/2	52 1/4	52 1/2	+1/4
Intel	34 1/2	34 1/4	34 1/2	+1/4
Oracle	28 1/2	28 1/4	28 1/2	+1/4
Novell	24 1/2	24 1/4	24 1/2	+1/4
Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
Unisys	14 1/2	14 1/4	14 1/2	+1/4

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Vol.	High	Low	Last	Chg.
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Oracle	28 1/2	28 1/4	28 1/2	+1/4
Novell	24 1/2	24 1/4	24 1/2	+1/4
Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
Unisys	14 1/2	14 1/4	14 1/2	+1/4

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HP	20 1/2	20 1/4	20 1/2	+1/4
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Unisys	14 1/2	14 1/4	14 1/2	+1/4

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HP	20 1/2	20 1/4	20 1/2	+1/4
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Unisys	14 1/2	14 1/4	14 1/2	+1/4

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Oracle	28 1/2	28 1/4	28 1/2	+1/4
Novell	24 1/2	24 1/4	24 1/2	+1/4
Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
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Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
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Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
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Novell	24 1/2	24 1/4	24 1/2	+1/4
Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
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Novell	24 1/2	24 1/4	24 1/2	+1/4
Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
Unisys	14 1/2	14 1/4	14 1/2	+1/4

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HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
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Motorola	18 1/2	18 1/4	18 1/2	+1/4
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HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
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HP	20 1/2	20 1/4	20 1/2	+1/4
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Compaq	22 1/2	22 1/4	22 1/2	+1/4
HP	20 1/2	20 1/4	20 1/2	+1/4
Motorola	18 1/2	18 1/4	18 1/2	+1/4
Rockwell	16 1/2	16 1/4	16 1/2	+1/4
Unisys	14 1/2	14 1/4	14 1/2	+1/4

NYSE Most Active

Stockholm		Yamaha
GA	416	413
GA A	619	616
GA A	156	158
GA Capco	509	509
GA Capco	509	509
		Toyota
		Yamaha Sec
		D: # 108
		Nichol 225 : 2072
		Previous : 20145
		Yamaha Index : 14
		Previous : 1425

Schneider Hit With Personal Bankruptcy Suits

FRANKFURT — Bankruptcy proceedings were launched on Monday by two banks against Jürgen Schneider and his wife as the fugitive property magnate's crippled real-estate empire continued to unravel.

Meanwhile, Mr. Schneider's largest bank creditor, Deutsche Bank AG, defended itself against accusations that it had not informed authorities quickly enough of his real estate company's acute financial problems.

Deutsche Bank also revealed that it was owed 1.2 billion Deutsche marks (\$701 million) by the company. In a written statement, it said it had financed the development of eight of the 75 projects undertaken by Dr. Jürgen Schneider AG, Mr. Schneider's company.

Regarding the bankruptcy proceedings, Deutsche Bank and Bayerische Hypotheken- und Wechselbank AG, another large German bank, filed the case on Monday in the district court in the town of Königstein, where Mr. Schneider's company is based.

Earlier on Monday, Technoteam Bauconsult AG, the Schneider subsidiary that carried out the building projects, filed for bankruptcy. Mr. Schneider's main operating compa-

Germany to Post Rise in Output

BONN — The government expects to report a rise in first-quarter gross domestic product as the recovery in Western Germany strengthened while growth in the East gained momentum, the Economics Ministry said Monday in a summary of its monthly report.

The ministry also said it expected inflation to slow this year. Western Germany's inflation rate fell to 3.2 percent in March from 3.4 percent in February.

The ministry said an improved business climate, rising manufacturing orders and increased construction activity since the beginning of the year supported its view of recovery in Western Germany. In Eastern Germany, industrial production was up 16 percent in the first two months of 1994 from a year earlier, construction orders surged 29 percent, and retail sales rose 9 percent.

Portugal Plows Ahead

Small Stock Market Posts Big Gains

MADRID — Investors in Portugal's small but booming stock market were barely ruffled when rising American interest rates sent most European markets into turmoil last month. Never mind the bears on Wall Street, they said, forget the volatility in Madrid; Portugal is on its own cycle.

Foreign investment and falling local interest rates have been fueling a rally that began more than a year ago and that some say is likely to continue, albeit at a slower pace.

The Lisbon stock market's BVL index, which soared 53 percent in 1993, continued to climb early this year, reaching 999.46 on Feb. 18 — its highest since October 1989, the last time the index was above 1,000 points.

Analysts call its easing over the last two months an overdue technical correction and still expect it to move generally higher.

Though the Lisbon exchange, which some international mutual funds classify as an emerging market, is small and narrow by European standards, money has been pouring in.

Over the last year, the volume of trading has almost tripled in local-currency terms, to 56.05 trillion escudos (\$321 million) last month.

"The amount of money coming in is really tremendous," said Francisco D'Orey, a trader at Mello Valores, a Lisbon brokerage firm. In three years, he said, daily trading volume had jumped tenfold, to more than 3 billion escudos.

In dollar terms, daily trading has jumped to the range of \$15 million to \$20 million, compared with \$5 million to \$10 million in the first half of last year.

Many analysts agree that changes made in late 1993 gave Portugal's market more international credibility. Insider trading was outlawed, and automation increased the market's liquidity.

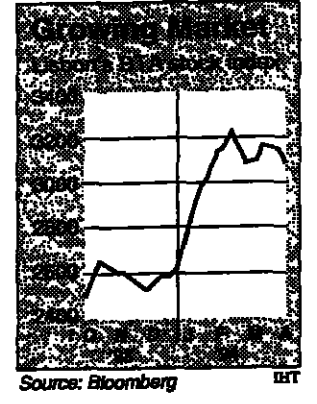
Brokers acknowledged that the first six months of 1993 were driven by frenzied foreign investment, especially from the United States. But as interest rates began to drop, falling from 14 percent last year to just under 9 percent in March, local institutional investors jumped in to join the rally.

"With risk-free high returns on T-bonds, mutual funds had no time for equity portfolios," said Eduardo Stock da Cunha of Banco Santander de Negocios, a Spanish merchant bank in Lisbon. Now, he said, "funds managed by our asset-management company went up by 200 percent in 1993 and we set up two stock market funds in six months."

Prime Minister Anibal Cavaco Silva said in March that rates could fall a further two percentage points by year's end. Inflation, currently 6.1 percent, is expected to ease to between 4.5 percent and 5.5 percent by the end of 1994.

The Finance Ministry, meanwhile, says it is determined to push its privatization program. Four companies — two cement makers, Sotil and Cimentos de Portugal EP, and two paper and pulp companies, Celulosa and Empresa de Celulosa e Papel de Portugal SA — will be on the market by summer.

Electricidade de Portugal EP, Portugal Telecom and Petróleos de Portugal are scheduled for sale to investors in 1995. The Finance Ministry predicts that these three giants alone will increase market capitalization by 5 percent.



Berlusconi Loosens Media Reins

ROME — Arnoldo Mondadori Editore SpA said Monday it was buying all of the publishing and printing activities of Silvio Berlusconi Editore SpA and would offer 51.15 percent of the company to foreign and Italian investors.

Meanwhile, Fininvest SpA, the company controlled by Silvio Berlusconi that acquired a majority stake in Mondadori in 1991, said it would reduce its stake to 47 percent from 98 percent by selling shares on the stock exchange.

Mr. Berlusconi, the leading candidate to become Italy's next prime minister, has said he would put Fininvest into a blind trust if he wins the office.

Mondadori said the acquisition would cost about 490 billion lire (\$30 million). Trading in Mondadori shares has been suspended since Wednesday.

Mondadori will issue 33 million shares, raising nominal capital to 128.9 billion lire from 95.9 billion. These shares will be added to the 33 million Mondadori shares held by Silvio Berlusconi Editore to comprise the 51.15 percent of Mondadori offered to the public.

The offer price has not been decided but will be between 12,000 and 15,000 lire per share. Holders of Mondadori savings shares will be able to convert those into common stock at a 1-for-1 ratio plus a payment of 3,750 lire per share.

Investor's Europe

Market	Index	Change
London	FTSE 100 Index	1,234.56
Paris	CAC 40 Index	3,456.78
Frankfurt	DAX Index	2,345.67
Berlin	DAX Index	2,345.67
Amsterdam	AEX Index	1,234.56
Brussels	EURO STOXX Index	1,234.56
Madrid	IBEX 35 Index	3,456.78
Lisbon	BVL Index	999.46
Stockholm	OMX Index	1,234.56
Oslo	BHELSE Index	1,234.56
Copenhagen	OMXC20 Index	1,234.56
Helsinki	HEX Index	1,234.56
Tallinn	TALX Index	1,234.56
Riga	RIGX Index	1,234.56
Vilnius	VILX Index	1,234.56
Warsaw	WIG Index	1,234.56
Bucharest	BUX Index	1,234.56
Sofia	SOFIX Index	1,234.56
Belgrade	BELX Index	1,234.56
Zagreb	ZEKX Index	1,234.56
Ljubljana	LJUBX Index	1,234.56
Prague	PRAH Index	1,234.56
Bratislava	BRATX Index	1,234.56
Vienna	VIENX Index	1,234.56
Salzburg	SLZ Index	1,234.56
Graz	GRAZ Index	1,234.56
Innsbruck	INN Index	1,234.56
Munich	MUN Index	1,234.56
Nuremberg	NUR Index	1,234.56
Düsseldorf	DUS Index	1,234.56
Cologne	COG Index	1,234.56
Dortmund	DOR Index	1,234.56
Essen	ESN Index	1,234.56
Duisburg	DUIS Index	1,234.56
Münster	MUN Index	1,234.56
Bielefeld	BIE Index	1,234.56
Osnabrück	OSN Index	1,234.56
Wuppertal	WUP Index	1,234.56
Worms	WOM Index	1,234.56
Koblenz	KOB Index	1,234.56
Speyer	SPE Index	1,234.56
Landau	LAN Index	1,234.56
Neuwied	NEU Index	1,234.56
Albstadt	ALB Index	1,234.56
Heidenheim	HEI Index	1,234.56
Ulm	ULM Index	1,234.56
Stuttgart	STU Index	1,234.56
Regensburg	REG Index	1,234.56
Landshut	LAN Index	1,234.56
Bayreuth	BAY Index	1,234.56
Erlangen	ERL Index	1,234.56
Ingolstadt	ING Index	1,234.56
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Nuremberg	NUR Index	1,234.56
Düsseldorf	DUS Index	1,234.56
Cologne	COG Index	1,234.56
Dortmund	DOR Index	1,234.56
Essen	ESN Index	1,234.56
Duisburg	DUIS Index	1,234.56
Münster	MUN Index	1,234.56
Bielefeld	BIE Index	1,234.56
Osnabrück	OSN Index	1,234.56
Wuppertal	WUP Index	1,234.56
Worms	WOM Index	1,234.56
Koblenz	KOB Index	1,234.56
Speyer	SPE Index	1,234.56
Landau	LAN Index	1,234.56
Neuwied	NEU Index	1,234.56
Albstadt	ALB Index	1,234.56
Heidenheim	HEI Index	1,234.56
Ulm	ULM Index	1,234.56
Stuttgart	STU Index	1,234.56
Regensburg	REG Index	1,234.56
Landshut	LAN Index	1,234.56
Bayreuth	BAY Index	1,234.56
Erlangen	ERL Index	1,234.56

Japan's Surplus Seen at Peak After Record

Compiled by Our Staff From Dispatches

TOKYO — Japan's trade surplus swelled to a record \$121.99 billion in the year to March 31, 1994, the government said Monday, but economists said the dramatically explosive figure was likely to shrink this year at last.

"It won't drop drastically, but the surplus has peaked," said Kozo Koide, economist at Industrial Bank of Japan Ltd.

For March alone, the merchandise trade surplus grew 4.2 percent year-on-year, to \$13.95 billion. The figure for fiscal year 1993-94 topped the previous high of \$110.89 billion set in 1992-93.

In the latest year, exports rose 6 percent, to \$366.18 billion. Imports rose 5 percent, to \$244.19 billion.

Japan's trade surplus with the United States, its most vocally irate trade partner, also widened in 1993-94, to \$51.14 billion from \$45.76 billion the previous year.

Japan's trade surplus with Asia in 1993-94 exceeded that with the United States for the first time, a Finance Ministry official said. The dollar-denominated trade surplus with Asia came to \$55.95 billion, up 25.1 percent from the year before.

Still, growing import volume suggests structural changes are afoot in Japan that are likely to whittle away at the surplus.

"There are three reasons why the surplus will come down — imports, imports and imports," said Geoffrey Barker, chief economist at Baring Securities (Japan).

Economists said the combination of a strong yen, which limits import prices, and three years of recession had begun to effect a basic change in the way consumers and corporate customers view imports.

"There is a change in values on the part of consumers which favors imports," Mr. Barker said. Mr. Koide said: "Import volume has been expanding from last summer, showing almost double-digit growth. Japanese consumers are becoming quite concerned about price as long as there is no major difference in quality."

Japanese exports — once a favorite with overseas buyers at almost any price because of their high quality — are also likely to be affected by rising costs.

Measured in yen, Japan's global trade surplus is already shrinking. The Finance Ministry said the surplus narrowed 4.7 percent in 1993-94, to 13.18 trillion yen.

After the initial appreciation of the yen over a year ago, Japan's surplus actually widened as the dollar value of exports rose. But as foreigners bought fewer Japanese exports because of their higher prices, the trade surplus has begun to flatten out. Economists call this delayed effect the J-curve. "You've got weak oil prices and yen strength pushing us into yet another kink in the J-curve, but you do have domestic demand picking up and an increased import propensity," said Jasper Koll, chief economist at S.G. Warburg Securities Japan.

(Reuters, AFP)

Succeeding in Japan: a Trilogy

3 American Companies Discover a Common Path

Los Angeles Times Service

TOKYO — When Apple Computer Inc. entered the Japanese market in 1977, its name recognition was so low and management coordination so poor that its first shipment of "Apples" was met by a refrigerated truck.

Dow Chemical Co. faced the opposite problem when it proposed 20 years ago to build a caustic-soda plant here. The well-known Dow name terrified Japanese chemical companies.

"We must suppress Dow, a world seller with its massive capital and technology, before it lands in Japan," a panic-stricken Kaname Kashima, director of the Japan Soda Industry Association, said on a television show in 1974.

Dow Chemical persevered, developing relations with Japanese companies and moving in as barriers to foreign investment slowly eroded. Dow currently has seven subsidiaries and joint ventures in Japan, in construction, pharmaceuticals and other industries.

Apple now ranks second in Japan's personal-computer market.

It is not just well-known companies that are finding ways to overcome the difficulties of doing business in Japan. Among the little-known successes is Japan Marketing Data Systems Ltd., which conducts a lucrative business helping bigger companies — including Apple — get around Japan's complex distribution system.

As the U.S. and Japanese governments face off over issues that could spiral into a trade war, the experiences of these three very different companies show that foreign companies willing to examine their own faults can succeed in the Japanese market.

During Apple's first decade in Japan, the company seemed to do almost everything wrong, from illogical distribution routes to making user manuals and software available only in English and installing managers who did not speak Japanese or understand the market.

Apple was an example of "how not to succeed in Japan," a U.S. State Department official said in 1988.

"People called us a laughingstock," Apple President Michael H. Spindler said during a recent visit to Tokyo. The challenge, he added, was: "Get the product right, so people can use it. Price it right, so people can buy it. Then build a distribution system, so people can find it."

Apple's turnaround began in 1989, when it marketed Japanese-language software for its products and hired Shigehiko Takeuchi, an

executive from Toshiba Corp., to head Apple Japan. He quickly broadened Apple's distribution networks and cut prices.

Apple sold about 300,000 Macintosh computers in Japan last year, carving out a 13.4 percent share, up from 8.1 percent in 1992 and second only to the dominant NEC Corp., whose share was 52 percent in 1992 and 49 percent last year. Apple executives predict a 20 percent market share by 1995.

Although Mr. Takeuchi stepped down as president late last year and his successor has not yet been named, Apple Japan seems well on its way to achieving its goal of \$1 billion in annual sales here.

For Dow Chemical, the key was seeking opportunities in many market segments and looking for joint ventures and other ways to serve Japanese companies, after its initial plan to enter the market was barred.

Dow's determination paid off as trade barriers fell and other factors made the company more acceptable — such as Japan's long recession, which has prompted more companies to look at Dow's lower-priced products.

"Quality at any price is no longer acceptable to the local consumer or manufacturer," said James W. Harris, president of Dow Chemical Japan Ltd.

The Japanese are willing to consider a

lower-priced foreign product now, he said, "even if it means they have to break relationships with somebody they've been doing business with for a very long time."

Dow Chemical's worldwide presence also helped as Japanese companies themselves became more global.

"A global company that can supply Toyota in Japan, Toyota in North America and Toyota in Europe with a common product, made any place and delivered to meet their needs, at the lowest cost-to-serve, is going to win," Mr. Harris said.

For Japan Marketing Data, meanwhile, success has come from its ability to help companies with their direct marketing, getting them past one major obstacle to doing business here.

Japan's infamous multilayered distribution system not only jacks up prices by 30 percent or more through profit-taking at each level of the network but also ends up blocking foreign manufacturers from contact with their customers, said Charles T. Luebker, founder and president of Japan Marketing Data.

Direct mail and related telemarketing operations help by delivering goods directly to consumers and providing manufacturers with information about what kind of people buy their products, he said.

Japan Marketing Data, with \$10 million in revenue last year, has doubled its business annually for five years in response to increased demand from foreign companies that do not know how, or have no way, to reach Japanese consumers directly, said Marc D. Paul, executive vice president.

Executives at Apple, Dow and Japan Marketing Data all said pressure from Washington helped win access for foreign products in Japan. But they also expressed fear that the United States might overplay its hand.

"We greatly support the continued pressure of the United States government on the Japanese to increase market access," Mr. Luebker said. But he said he worried about the way Washington "so clumsily goes about doing it," adding: "There's no finesse, no style. They just look like a bully."

NEC Considers General Magic

Bloomberg Business News

TOKYO — NEC Corp., which dominates Japan's market for personal computers, plans to invest in General Magic Inc. to gain access to the American company's communications software, Nikkei English News said Monday.

An NEC executive, who asked not to be identified, denied the company had made a formal decision to invest in General Magic but said he would not rule out the possibility NEC might do so soon.

Nine other high-technology companies have taken stakes in the three-year-old California software manufacturer, whose TeleScript and Magic Cap communications software systems are becoming increasingly recognized as the global standards for computer communications.

Such a Deal Burma Has for Foreign Investors

Reuters

RANGOON — The colorful leather jacket made from barking-deer hide and snakeskin was definitely more Mandalay than Milan.

Red and brown blotches on a light tan coat fringed in rough green-and-black boar constrictor skin may not be everybody's idea of style, but it drew a lot of attention at Burma's first major trade fair this month.

"We call this our three-color flower design," explained Myint Than, chairman of the Mandalay-based Nila Leather Jerkin Product Cooperative.

"My 15-year-old son invented this unique technique while playing around with different dyes. The inspiration comes from Allah," he said with an engaging twinkle of the hand.

Surrounding his stall were hundreds of other displays by Burmese businessmen and civil servants hawking everything from plastic buckets and hand-woven textiles from the Golden Triangle to vast tracts of farm land and a new brand of cigarettes.

Foreign businessmen and tourists joined thousands of local residents for a stroll along

the aisles as salesmen invited them to take a closer look at their wares.

Burma, shunned by all but a few nations since its ruling generals crushed a pro-democracy movement in 1988 and renamed the country Myanmar, has recently been opening up in a bid to boost its economy.

Organized by the Trade Ministry, Myanmar Trade Fair '94 was part of a relatively new drive by the ruling State Law and Order Restoration Council to attract investment and win export orders. The only problem was that almost all participants at the show were new to the export game.

"We are beginners. We haven't any customers," Myint Than said. "Now that the government has opened the economy this is our first chance to find exporters."

Opening the fair, which ran April 1-12 under the slogan "Export expansion — the national strength," the trade minister, Lieutenant General Tun Kyi, said one of the main aims was to get international exposure for Burma's exportable goods.

"The government is therefore giving top

priority to export promotion," he said at the opening ceremony attended by members of the ruling council, diplomats, local and foreign businessmen and a bevy of Burmese models.

Of the 203 stalls, 33 were taken by state corporations, 18 by joint ventures, 60 by cooperatives and the rest by private enterprises.

Thein Win, chairman of the Myanmar Industry Association, was busy looking for buyers for his new brand of cigarettes, Polo Nine, which he hopes to be able to export to Russia and China.

The cigarettes, which wholesale at just \$2.50 for a carton of 200, were made locally from Myanmar Glacier Tobacco Ltd., a joint venture set up one year ago with backing from South Korea's Glacier Tobacco Ltd., he said.

"A lot of people believe the game polo was invented in Burma and everybody here considers the number nine to be lucky, hence the name Polo Nine," Thein Win said.

Asked if he thought the military council's poor human rights record might put off po-

tential buyers and investors, he said Burma was better than China "in a political sense" and that China did not seem to have any problems selling its goods. "Just because of the human rights situation, do I have to stop my work?" he demanded.

Beneath a large sign inviting foreigners to "grab the golden opportunity now," Myo Myint, a civil servant from the Agriculture Ministry, was on the lookout for foreign business people to persuade to invest in farming, plantations and food processing.

He said the government had identified 1.55 million hectares (3.83 million acres) of fallow land and 8.23 million hectares of cultivable wasteland that would be suitable for joint ventures.

Scott Montgomery, an American businessman who has lived in Rangoon for a year, said amid the bustle that the Burmese government was trying to follow China by encouraging state-owned enterprises to play a leading role in building up the economy.

"It is getting more and more open but it isn't a free market yet," he said.

India Says Foreign Investors Fail to Keep Up With Its Reforms

Reuters

NEW DELHI — Prime Minister P.V. Narasimha Rao told potential foreign investors Monday that his 33-month-old economic reforms were irreversible but the overseas funds needed to sustain his efforts had not kept pace.

"The translation of foreign invest-

ment approvals into actual implementation in the form of projects has been somewhat below expectation so far," Mr. Rao told a meeting of potential investors.

Up to February of this year, India approved foreign direct investments worth 140 billion rupees (\$4 billion), mainly in the energy and

food-processing sectors. But the actual inflow of investments totaled only 30 billion rupees, according to the Industry Ministry.

Mr. Rao is piloting far-reaching economic changes aimed at ending four decades of state controls. About 250 investment projects, worth more than \$1.5 billion, have

been identified as having the potential to attract foreign investors.

The investment opportunities cover five industrial sectors: food processing, leather and leather goods, textiles and ready-made garments, chemicals and related industries, and metallurgy.

The projects identified for dis-

cussion at the meeting of potential foreign investors were of small or medium size, which are considered important for India in terms of employment potential.

K.R. Narayanan, the vice president of India, said his country offered better long-term economic

prospects for foreign investment and trade than China's booming economy.

But while the sheer size of the Indian market for industrial goods is attractive for foreign investors, questions about the stability of its politics has kept foreigners cautious.

Battle Against Inflation Holds Key to Sri Lanka's Prosperity

Reuters

COLOMBO, Sri Lanka — Runaway inflation, stoked by rising government spending in an election year, will dampen Sri Lanka's economy, which otherwise would benefit from better agricultural output, officials and economists said on Monday.

"A 6 percent growth rate this year is realistic," Arjuna Mahendran, an analyst with Crosby Securities, said. "Rains will increase tea, rubber and coconut production. Tourist arrivals are up and manufacturing should be all right de-

pending on lower lending rates."

But inflation, now around 12 percent, is expected to accelerate as the government battles to win a presidential election at the end of this year and a parliamentary election in early 1995, he said.

Last month the ruling United National Party suffered a surprising loss to the opposition People's Alliance in a key regional election and is now making vote-catching but inflationary gestures.

Welfare measures such as free school uniforms and midday meals,

phased out for lack of funds, are being reintroduced.

"If government finances get out of control, inflation will increase sharply," another private-sector economist said.

Last year Sri Lanka's economy grew by 6.7 percent, compared with 5.6 percent in 1992, the central bank governor, H.B. Dassanayake, said last week.

He said the manufacturing, industrial and services sectors grew while direct foreign investment and portfolio investment had increased considerably in 1993.

"One of the biggest battles to keep the economy buoyant is to keep inflation down, and that means not to allow too much monetary growth," Mr. Dassanayake said.

The Central Bank announced last month it would issue short-term se-

curities to mop up excess liquidity, but analysts said new, longer-term instruments were needed.

Also fueling inflation are high foreign-exchange inflows and elevated military spending.

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CASINO LOUTRAKI

EXPRESSION OF INTEREST FOR CO-OPERATION

At Loutraki, 80 km from Athens — a Casino license will be soon granted by the Greek Government.

The Municipality of Loutraki and Perahora, having the appropriate land as well as specific pre-feasibility studies for the touristic development of the wider area, and having interest to co-operate with investor in order to participate in the official tender for the acquirement of a license.

Invites

Investors to submit proposals of expression of interest for the phase of pre-evaluation (short-list).

Basic criteria for the pre-evaluation of the proposals:

- Experience in large touristic development programmes (amounts, invested, country, year, partners, etc).
- Experience in constructing, organising and operating of Casinos (co-operation with other hotel of casino chains).
- Presentation of appropriate economic data indicating the financial status of the candidate investor (balance sheet of last 5 years, shareholders).
- Co-operation with Banks with suitable references and permission to further request additional information.
- Minimum amount of investment for the first phase of construction of the project should be the amount of 40 million USD.
- Desired maximum construction duration 3 years.

Short-listed candidates will receive in due time from the Municipality the relevant prefeasibility studies which include:

- The Hotel-Casino cluster;
- The construction and operation of a Marina, etc.

The Municipality, with its Société Anonyme will collaborate with the strategic investor with a percentage share and terms which will be set during the negotiation phase.

All proposals must be submitted by the 10th of May 1994 at the following address:

Municipality of Loutraki - Perahora
El Venizelou 47 - Loutraki
GREECE
Tel.: 9741-02172 & 01-7221932.

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FINANCIAL COPY EDITORS

The International Herald Tribune is looking for senior copy editors to fill important roles on the business and financial copy desk in its Paris newsroom.

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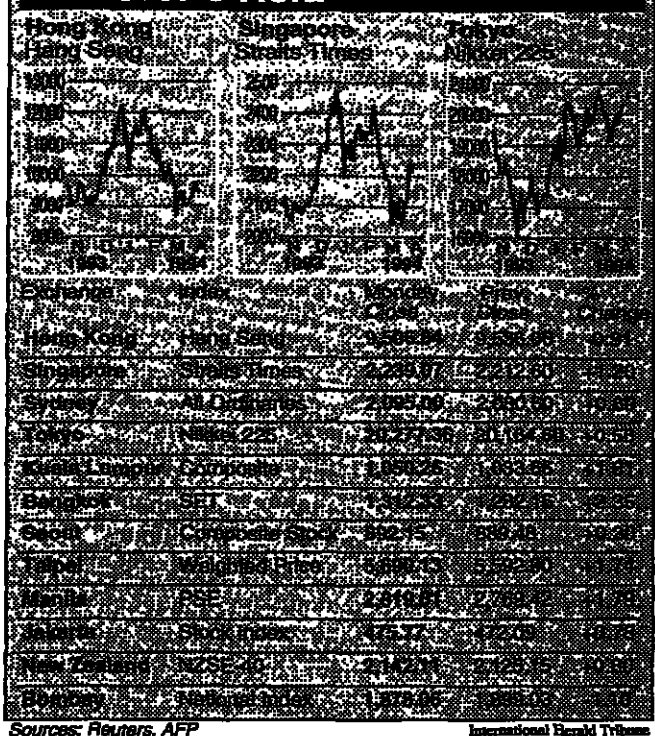
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Investor's Asia



Very briefly:

• Indonesia's labor activists said they would continue strikes for pay increases and freedom to form independent unions. Three deaths and 82 arrests were reported on Friday as demonstrators clashed with the military in Sumatra. Police said they have released 62 workers after interrogation and detained 20 for further investigation.

• Singapore started tests for electronic road pricing, a method of billing motorists for using streets much as residents are charged for water or electricity. The system may institute three types of charges: a road entry fee, one based on mileage and one based on the degree of traffic congestion. Three international consortia are competing for the contract to install the system that might be valued as high as \$170 million.

• Japan's cigarette sales rose by 1.1 percent in the financial year that ended March 31, the fifth consecutive year of increase, to a record 332.6 billion cigarettes, the Tobacco Institute of Japan said.

• Tung Ho Steel Ltd., one of Taiwan's largest steel companies, said pretax profit fell 39.4 percent in the first quarter of 1994, to 109.2 million Taiwan dollars (\$4 million), due largely to falling prices.

• Bangkok Bank Ltd., Thailand's largest commercial bank, raised its interest rates for savings accounts by 0.25 percentage point, to 5 percent, following the rise of prime lending rates last month. That move was aimed at stabilizing the market after foreign funds migrated out of Thai securities in the wake of the Bangkok stock exchange's recent slump.

• China said it would introduce compulsory licenses for architects and increase supervision of building.

AP, Bloomberg, AFP

CITIC Pacific Issuing Stock To Buy Assets From Parent

Reuters

HONG KONG — CITIC Pacific Ltd., the first Chinese-controlled company to become a Hong Kong blue chip, said Monday that it was buying 1.52 billion Hong Kong dollars (\$197 million) worth of assets from its parent and would raise more than twice that amount by issuing stock.

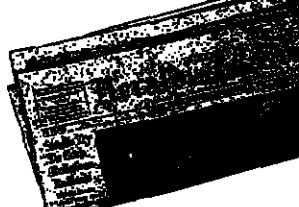
CITIC Pacific, which has businesses from car dealerships to a stake in Cathay Pacific Airways, is to buy stakes in road and rail tunnels, and residential and commercial property in Hong Kong and China from its parent, China International Trust & Investment Corp. Hong Kong (Holdings) Ltd.

In the deal, CITIC Pacific will boost its stake to 35 percent from 10 percent in the Western Harbor road tunnel that is to link Hong Kong island with the mainland and the new Chek Lap Kok airport.

To help pay for its purchases, CITIC Pacific is to issue 166.27 million new shares, or 8.99 percent of existing shares, at 23 dollars each, to raise 3.82 billion dollars. CITIC HK is taking 66.27 million shares and the rest are being placed with financial institutions.

About 1.4 billion dollars of the proceeds will go for capital expenditure and 900 million dollars for loan repayments and working capital.

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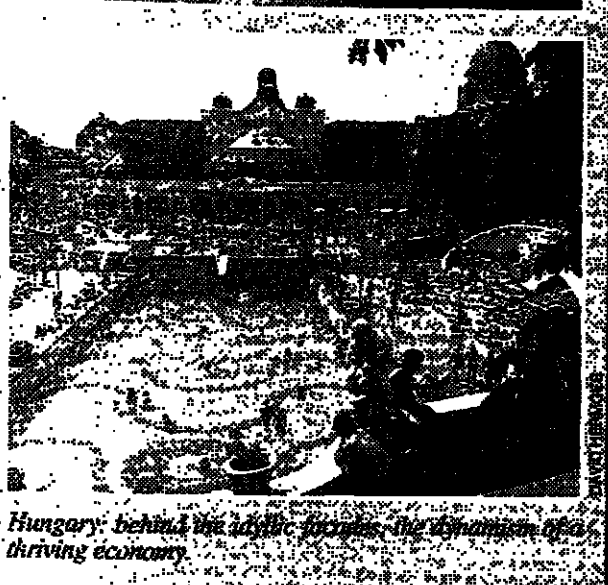


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Hungary: behind the stable growth, the dynamism of a thriving economy.

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Over the past few years, Hungary's transformation into a free-market economy has been remarkably smooth, thanks to its success in attracting foreign investment, wide-ranging privatization, political stability and the entrepreneurial spirit of its people. Today, key indicators show that the economy is ready to take off.

HIDDEN RESERVES, VISIBLE ASSETS

Even Hungary's staunchest supporters were not expecting the good news. After systematic and scientific evaluation of the data, a team of researchers announced that all of the existing indicators on Hungary's economy "were not quite accurate," as they carefully put it. Their study showed that the country's "non-statistically reported economic activities" probably amounted to 25 percent of the previously established gross domestic product, not the 18 percent predicted.

If true, this would amount to the largest readjustment of recent years. In 1985, Italy factored its "shadow economy" into its official GDP, catapulting the country to fifth place among the world's industrial nations. A similar readjustment, Hungarian-style, would mean that Hungary entered the growth column a full 18 months earlier than previously thought. It would also go a long way toward explaining the burgeoning prosperity and bustle of entrepreneurial activity in the country's cities and towns. Most importantly, the existence of hidden reserves of this scope would account for the country's ability to keep on course during four years of upheaval and recession.

The report, compiled by an international team of experts, was confirmed by a series of subsequent developments.

After securing more than half of the investment flowing into Central Europe over the three previous years, Hungary was widely forecast to undergo a year of foreign-investment retrenchment in 1993. Boosted by mid-December's \$875 million purchase by Germany's DBP Telekom and Ameritech of a 30.2-percent stake in MATAV, the Hungarian telecommunications authority, the country defied the experts' predictions and set its fourth consecutive record. Foreign investors dispatched \$2.5 billion to the country in 1993, up a whopping 88 percent over the previous year.

The target set by the government for Hungary's nascent private sector was 50 percent of GDP by the end of 1994. In mid-March, Bela Kadar, the country's minister of international economic relations, announced that this goal had been reached eight months ahead of schedule. This achievement was fueled by a continuing boom in company foundings and the success of the country's privatization program, whose efforts are now nearing the halfway point. Today, Hungary has nearly 900,000 companies of all sizes and descriptions, an increase of 18 percent over the previous year.

Even in its problem areas, the country has been doing better than expected. Although still high at 12.6 percent, officially reported unemployment was down by some 10,000 persons in February. In early March, it was announced that the government's chronic budget deficit had been kept down to 6.2 percent of GDP — right on target and well below the previous year's figure of 7 percent. The country's pre-election phase, now in its last month, started with dire predictions of apocalyptic swings to the left or right. It is concluding, however, with tidings of coalition-building and a continuation of the moderate policies that have given Hungary an unmatched reputation for political stability in Central Europe. Elections are scheduled for May 8.

Many of the country's assets are quite evident to anyone who takes the trouble to look, as did the International Labor Organization in its recently released report, "Are Hungarian



The experiment that worked: An increase in industrial output, tourism and services, as well as a burgeoning private sector, are healthy signs for Hungary's market economy.

Labor Costs Really So High?" The report concluded that the country's labor costs are actually among the lowest in the world. Hungary's wages are slightly higher than those of its neighbors (although still one-tenth of Germany's, for instance); its productivity, however, is much higher — and growing.

On a cost-per-unit basis, Hungary compares favorably with such low-wage paradises as Mexico. Companies such as Philips and General Electric have cited this productivity as their reason for transferring facilities to the country.

Many of Hungary's assets are neither hidden nor undiscovered, especially the stunning cityscapes of Budapest and the charms of Lake Balaton. Tourist arrivals in the country were up a strong 13 percent in 1993. While a large portion of this increase stemmed from the youth and package-tour segments, Budapest is increasingly receiving the market's high-

end customers: business and "cultural" travelers, according to Peter J. Leitgeb, managing director of the Grand Hotel Corvinus Kempinski Budapest and a highly active proponent of high-end tourist development in the city. Opened a year and a half ago, the well-run, 140-million-Deutsche-mark hotel occupies a choice location in Budapest: directly on Erzsébet tér (Elizabeth Park).

"I think you can use our hotel as a microcosm for the state of Budapest's tourist trade as a whole," says Mr. Leitgeb, who has held senior positions in the hotel trade in Europe, America and the Far East. "More and more high-end travelers are coming from farther and farther away to visit Budapest. After those from the German-speaking area, Americans and Japanese now form the second and third most numerous national groups at our hotel."

Terry Swartzberg

TAKEOFF YEAR FOR THE ECONOMY

Arpad Goncz has been president of the Republic of Hungary since 1990. After earning a doctorate in jurisprudence, he embarked on a long and distinguished career as a political activist (with accompanying periods of incarceration), editor, writer and literary translator. Mr. Goncz has been awarded a number of major national and international prizes for his writings and translations.

According to outside analysts, 1993 was Hungary's turnaround year, and 1994 will be its takeoff year — a year of modest but sustained growth. Do you see this upswing developing?

With a few very important qualifications, yes. Industrial production — a bellwether of any economy — has been showing a marked rise for some time now, as have such key sectors as tourism and services in general. The upswing is very evident when you walk through the streets of Budapest or other major cities. It shows itself in the new stores and automobiles and newly restored buildings.

The qualifications: the transformation of our country's agricultural sector has yet to generate increases in this area's output. Our economy is still characterized by high rates of unemployment, corporate indebtedness and inflation. These factors have caused social hardship in certain segments of our society, and expenditures allocated to alleviate this hardship have made it difficult to reduce the public sector's budget deficits.

One further point, this time positive. "Modest" was the term used to describe our current growth, and that is probably not quite accurate. The upswing may have started earlier and now be much more pronounced — and unemployment may be lower — than official figures have been indicating. The official reporting system simply does not yet cover a large portion of our economic output, nor are citizens overly zealous in reporting certain kinds of revenue.

The country's national election is scheduled for

May 8. Are any issues emerging from the ongoing political debates that could cause a shift in the policies of the past four years?

I cannot foresee any large-scale policy shifts occurring after the election. The country's underlying economic factors are going to remain the same no matter which parties form the government after next month's election. The new government will also inherit the same range of options to deal with these factors and problems. Most importantly, the process of finding compromise solutions to current issues will also be set forth. It is this consensus-building that has enabled Hungary to avoid

large-scale social unrest and given the country its reputation for political stability. This reputation, in turn, has proven a considerable asset in securing foreign investment.

You have been in office since the inception of post-revolutionary Hungary. What characteristics do you see emerging in your newly reformed country?

A great deal of resourcefulness, the ability and the willingness to cope with whatever challenges and problems current events throw into our back yard. We have managed to keep Hungary on an even keel, to keep its economy and its institutions intact over the past four years — no small accomplishment during a period of large-scale upheaval in our traditional markets in the east and in the south and the swing into recession of our new major trading partners in the West. This recession, in turn, has triggered an outbreak of protectionism on their part. The recession is coming to an end in the West, the restructuring of Central Europe is now at an advanced stage, there are signs of recovery in the east and peace in the south. These developments indicate that Hungary's era of coping could well be coming to an end. I am looking forward to proceeding full steam ahead with the task of creating a new Hungary.

Interview by T.S.

ELECTIONS IN MAY

Hungarians take to the voting booths in May to make what has proven a fateful decision in other former Warsaw Pact countries — whether or not to re-elect the government they chose in their post-Communist idealism.

March polls conducted by Gallup Hungary indicate that Hungary's center-right coalition government — the longest-lasting one among the new democracies of Eastern Europe — may finally fall. In the poll, the coalition's members — the majority Hungarian Democratic Forum, the Christian Democrats and the Independent Smallholders — all trailed their liberal and socialist competitors. Thirty-one percent of people who intend to vote said they would vote for the Socialist Party, the legal but not ideological successor of the former Communist Party. The Socialists' current economic platform is based on private ownership and does not propose any vast changes to Hungary's current economic overhaul.

The Socialist's popularity rating is way ahead, in polling terms, of the 15-percent rating received by its closest competitor, the liberal Federation of Young Democrats, or the 10 percent received by the governing Hungarian Democratic Forum. The Forum is represented by the current prime minister, Peter Boross, who was nominated for the post after Prime Minister Jozsef Antall died from cancer in December. Despite his recent entry on the scene and his relative lack of political experience, Mr. Boross fares well in polls. Often ahead of him, however, is Socialist Party President Gyula Horn. A former foreign minister in Hungary's transition government, Mr. Horn became well-known for allowing East Germans heading West before the Berlin Wall's fall to cross through Hungary. Mr. Horn has not yet been confirmed as the Socialist Party's candidate for prime minister.

The election's first round will be held Sunday, May 8, and the second round on a yet-undetermined date later in May.

Susan Spencer-Wendel

This advertising section was produced in its entirety by the supplements division of the International Herald Tribune's advertising department. David Hermges is a British writer, photographer and broadcaster specializing in Central Europe. Lucy Hooker is a free-lance British writer based in Budapest. Susan Spencer-Wendel is news editor of The Budapest Sun. Terry Swartzberg is a Munich-based business writer.



MAGYAR NEMZETI BANK

HUNGARIAN ECONOMY - STEADY PROGRESS

1990-1993 - Four Successful Years

In the past four years, Hungary has scored remarkable results in developing its economy:

- Modern legislation and institutions needed for a market economy have been created, and clear and transparent rules govern the environment for the business community.
- The country's economy has by now mastered the problems caused by the simultaneous loss of East European markets and the challenge of a thorough restructuring in both production and ownership patterns. This was achieved, however, at the price of a temporary decline in gross domestic product and a rather high rate of unemployment.

Favorable Development of Inflation

Due to a considerable extent to a carefully guided monetary policy, inflation has been kept within tolerable limits. The annual consumer price index, after reaching a peak of 35 percent in 1991 following the dismantling of subsidies, decreased to 23 percent in 1992 and to 22.8 percent in 1993. The prospects for a further reduction are very good, as monthly rates in the first three months of 1994 were about half the corresponding values of the preceding year.

Dynamically Growing and Powerful Private Sector

Due to a favorable environment for starting enterprises, the number of registered business entities, incorporated and non-incorporated, rose from less than 40,000 in 1989 to around 170,000 at the end of 1993. The number of licensed individual entrepreneurs, totaling less than 200,000 in 1989, has grown to 700,000.

In the past four years, Hungary has accomplished an ambitious program of privatization. Despite the scarcity of local private capital, local investors are participating increasingly in this process.

Currently, more than half of total GDP is produced by the private sector.

Steadily Increasing Flow of Foreign-Investment Capital

Under a clear legislation for foreign investments, providing guarantees for free repatriation of both profits and — in case of termination — capital, direct foreign investment started to soar in 1990. During the four years of 1990-1993, an annual average of US\$1.5 billion flowed into the country. The figure for 1993 was US\$2.3 billion, with the largest individual foreign investment to date — US\$850 million — into MATAV, the Hungarian Telecommunication Company, by high-profile German and American investors. Foreign investors are active at the Budapest Stock Exchange as well. In the near future, state bonds will be available for foreigners.

Flawless Foreign-Debt Management

Hungary has always been prompt and accurate in servicing its debt to foreign lenders. The four years that followed the political change in 1990 brought an even more resolute policy in maintaining the international financial position of the country. The National Bank of Hungary, as the sovereign borrower for the country, has been able to substantially improve the maturity structure of foreign gross debt, with the share of short-term debt decreasing from 16.2 percent in 1989 to 8.2 percent at the end of 1993. Net foreign debt decreased from US\$15.9 billion in 1990 to US\$14.9 billion at the end of last year. Gross foreign debt, however, increased from US\$21.3 billion to US\$24.5 billion, as there was a decline in exports last year, seriously affecting the current account. This drop in exports was due to the accumulated effects of the loss of eastern markets, West European recession and highly unfavorable weather conditions in farming.

Due to the country's flawless debt management and, not least, to its political and economic stability, the NBH was able to increase its foreign-exchange reserves to US\$6.8 billion, amounting in value to about seven months of imports; the NBH accomplished this by increasing its bond issues on various international capital markets. The confidence of foreign capital markets is indicated by the fact that the NBH was able to issue 20-year bonds on the U.S. bond market.

Challenges and Outlook for 1994

The results indicated above were not achieved without problems, of course, and some of these challenges are likely to prevail for some time. Recovery in industrial production, however, has started, with growth in 1993 amounting to 4 percent; early 1994 results confirm the favorable tendency. There are hopes for West European markets to revive this year, and — with the "Europe" agreement in force since Feb. 1 this year — the conditions for the access of Hungarian goods to these markets are likely to improve. In addition, the outlook for agricultural production, an important source of goods for export, is better than ever in the past few years. The deficit of the central budget is likely to be higher than in 1993, but it will probably still remain within 7 percent of GDP.

The World Exhibition or "EXPO" in 1996, to be organized and held in Hungary, will likely be a strong magnet for business and activity from all over the world, and it will no doubt increase the attractiveness of this country for world business.

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ADVERTISING SECTION

HUNGARY

A LONG-TERM TARGET FOR FOREIGN INVESTORS



General Motors considers its \$235 million Hungarian plant a true success story.

It is a much-vaunted fact in Hungary that this small country of 10 million people has attracted \$7 billion, or more than half of the total foreign investment flowing into the region, since 1989.

The explanations for the original investments are clear. Strategically located in the heart of Central Europe, Hungary is ideally located as a stepping stone into markets in the east. Hungary had done business to its east, north and south for many years and had all the requisite experience.

Hungary's Communist regime had also taken the first steps toward market reform long before any of its neighbors, introducing small-scale private enterprise in the late 1970s.

Moreover, Hungary could provide the foreign investor with a highly educated but inexpensive work force, a legal and financial infrastructure, proximity to established markets in Western Europe and access to Hungary's own domestic market. These advantages attracted a host of multinational companies to Hungary.

Alcoa invested \$165 million in a joint venture with Hungarian aluminum manufacturer Kofem. Italian electrical engineers Ansaldo, a subsidiary of IRI, joined up with the Hungarian company Ganz with an investment of \$130 million. French pharmaceuticals company Sanofi paid \$100 million for a 51-percent stake in Chinoin.

Original investments had a multiplying effect. German car manufacturer Audi invested \$450 million in a greenfield engine-manufacturing plant in Western Hungary, following the example of Ford, Suzuki and General Motors. The single largest investment came in December 1993, when the telecoms consortium Magyarcom — comprising Deutsche Bundespost Telekom and Ameritech International — won a tender for a 30-percent stake in the Hungarian Telephone Company with its \$875 million bid. This was Eastern Europe's largest deal, and a further \$4.3 billion will follow over the coming decades. Magyarcom eclipsed General Electric as Hungary's largest investor, overtaking GE's \$550 million investment in the Tungsram light-bulb-manufacturing company.

One of the first to move into Hungary, GE has now begun relocating production sites from Britain to Hungary, where wage costs are lower. Tungsram recently received a \$600,000 contract to supply bulbs for the New York subway, showing that the company is a sound long-term investment.

Despite successes such as Tungsram, however, there is speculation that Hungary might be losing its glow.

"There is less direct investment, but does that mean Hungary has lost its attraction?" asks Edward

Bush, president of the American Chamber of Commerce in Hungary and general director of the First American-Hungarian Insurance Company (AHICO), part of the American International Group (AIG). "The marketplace is not saturated, but investment has slowed a little. It is the same all over the region. Maybe it is just a natural cycle."

Bela Kadar, Hungary's minister of international economic relations, says: "You can read about Hungary's lost position every week in the newspapers. But it is wrong that Hungary has lost its attractiveness for foreign investors."

At the end of 1989, direct foreign investment was \$570 million. In 1993, it had ballooned to \$7.1 billion out of a total \$30 billion for the former Comecon group, according to Mr. Kadar.

"Fifty-three percent of foreign investment is in the manufacturing industry, which shows that Hungary is attractive as a production site and that foreign countries want to relocate here," says Mr. Kadar. "Last year, \$2.3 billion was direct capital equity investment."

There are still challenges, according to Mr. Bush. "You have to develop a strategic approach," he says. "For foreign investors, it has to be comfortable in the long term. You have a war to the south. But if the war resolves itself, Hungary is a natural place to invest. Hungary has a strategic location, it is politically stable, and any of the logical scenarios for election results in May indicate it will continue to be stable. It has an extremely productive and intelligent work force. The big thing they needed was the technological transfer."

One off-cited criticism is Hungary's small domestic market. The assumption is

that larger markets will lure away potential investors. This argument is fast losing credence as increasingly free trade with the European Union means domestic and foreign investors do not have to rely on a narrow Hungarian domestic market, but can produce for the 400 million consumers of the European free-trade area. This year, Suzuki plans to export 10,000 cars made in

their plant in northern Hungary to Western Europe, taking advantage of Hungary's preferential relationship with the EU.

"Via the agreement, Hungary has a chance to step out of the boundaries of the narrow domestic market," says Mr. Kadar. "The economic destiny of small countries will be left behind via integration."

Lucy Hooker



More than a stepping stone: Hungary offers investors a domestic market thirsty for Western goods.

INVESTOR PROFILE: GENERAL MOTORS

Four years after the decision to locate General Motors' new production plant for high-tech engines in Hungary, GM Hungary's Managing Director Ernst Hoffman shows no signs of regret. "Are we satisfied with our investment? Without any hesitation, the answer is yes," he says. "We can measure it in figures, quality or self-satisfaction. Here we are really at the top of the rank of good quality. As for the attitude, involvement and flexibility of the labor force, I am proud of my Hungarian crew. They are flexible and understand the business."

GM formed a joint venture with the agricultural-machinery manufacturer Raba and invested 400 million Deutsche marks (\$235 million). Production started in mid-1992. The government helped GM Hungary upgrade the local infrastructure with telephone lines and a gas pipeline. In general, however, the site in Szentgotthard was ideal. The company also capitalized on a 10-year tax concession from the government.

Originally, the plan was to build 1.6-liter engines for export to GM Europe's other assembly plants. This year, the company expects to pro-

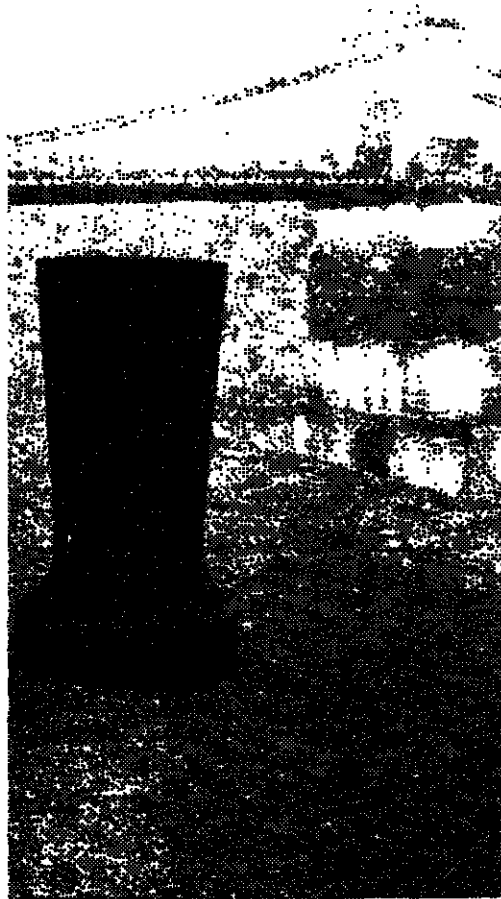
duce more than 140,000 engines. Then the idea struck that the Astra model — family-sized but not expensive — was ideal for the Hungarian market, and the project was expanded. Sales of Astras have more than doubled every year since. More than half of the 17,000 units sold last year were assembled at the Szentgotthard plant and sold tax-free on the Hungarian market. Within GM Europe, the Hungary branch is considered a true success story. Production statistics are good due to lower costs and the most modern techniques.

L.H.

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BANKS, FINANCE: ADAPTABILITY PAYS OFF

Hungary's young financial sector already has many of the most sophisticated features and instrumentalities common to its senior Western counterparts.

These include thriving markets in certificates of deposits (CDs) and commercial paper (CP), electronic-based securities and shares trading systems, and corporations' routine use of currency futures as hedges. Like its Western counterparts, Hungary's central bank has a wide-ranging brief and has not been hesitant in making use of it.

Unlike in the West, these features have not risen solely from the desire to maximize profits or to steal a march on the competition, but rather from the simple need "to keep on top of a rapidly changing business environment," according to Lajos Bokros, chairman of the board of Budapest Bank, one of Hungary's "big six" banks.

This environment has been marked by bouts of inflation and inflation-caused high interest rates and monetary volatility, as well as by a rash of nonperforming corporate loans, a result of the near-total collapse of the companies' markets in the east.

To stay afloat and to keep the "credit machine" in operation, the banks have re-

lied on a great deal of adaptability and on well-dosed measures of public support.

One item adapted has been the CD, a standard in advanced financial centers. CDs have now established themselves in the Hungarian banking sector — and for a very good reason.

The issues have offered a neat solution to a vexing cash-flow bind: large

amounts of short-term funds going out (in the form of the banks' credits to corporate customers) and — because of a high percentage of nonperforming loans — not enough revenue and principal returning to cover the issuance of further credits. By issuing high-yield CDs, the banks have secured a source of fresh cash.

These issues have also been able to absorb a large portion of the "hot money" floating around Budapest, thus creating a new market in the process.

The country's banks employ a large spread (the difference between interest rates charged and paid) to amortize the costs of these nonperforming loans and the expensive CDs.

Often unwilling to "cov-

er" the spread, which now totals 8 percentage points, blue-chip customers have displayed a good measure of inventiveness. They have started issuing their own "paper," thus inadvertently putting Hungary in the vanguard of one of Europe's late-blooming capital markets.

In turn, the country's banks generally manage

these issues, securing the banks an additional source of revenue.

Such services and sources of capital have sufficed to stabilize the banks' cash-flow situation, but not their overall capital-adequacy positions, sapped by the nonperforming loans. Enter the National Bank of Hungary. In two separate and recent moves, the bank first organized a swap of a portion of the banks' nonperforming loan portfolios for long-term state securities, and then subscribed to a recapitalization of several leading banks.

As a result, the banks are well on their way toward exhibiting normal capital adequacy ratios.

Of key importance is that this scrambling and shifting

has been well-managed. As key indicators show, Hungary's standing as a well-performing financial market has been maintained throughout this "era of adjustment" during which the forint's convertibility and level of acceptance have steadily increased.

Today, the currency is "convertible for all practical purposes," says Peter Akos Bod, president of the National Bank of Hungary. Buoyed by hard currency reserves now totaling more than \$6 billion, the ratings of the country's "governmental paper" have actually improved — and this despite total governmental foreign indebtedness of more than \$24 billion.

The free expatriation of profits is an important selling point with international investors, and it has been continued as a matter of course.

One factor enhancing international investors' confidence in Hungary's financial sector is its exemplary openness.

Today, 24 of the country's 42 banks are entirely or partially owned by foreign investors. Non-Hungarian banks and their subsidiaries are playing a welcome role in helping to develop the country's retail banking, which is still generally bogged down in the "cash and carry" phase, as National Bank Director Istvan Nadory puts it.

These banks have also been highly active players on Budapest's shares and securities exchange.

Another confidence-builder has been the Hungarian government's clear commitment to largely removing itself from banking operations by the end of 1996. By that time, the Hungarian government plans to have reduced its equity stakes in "its" banks to under 25 percent.

One method that will be used is privatization. "One a year" is the current timetable for such privatizations, with the Hungarian Foreign Trade Bank and the Budapest Bank reportedly the first in line.

T.S.

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HUNGARY

PROMOTING TRADE: JOB GETS EASIER

In 1991, the Soviet market finally collapsed. At the same time, recession hit Western Europe and the war broke out on Hungary's southern border. Since then, Hungary has suffered over \$1 billion in direct damages from the embargo against the rump state of Yugoslavia.

In the meantime, industries at home went through a momentous restructuring process to put them in a position where they could start to compete with Western companies. This eventually took its toll on Hungarian exports, which

By 1992, all foreign trade was convertible

had been rising in 1991 and 1992. In 1993, exports decreased sharply, resulting in a current account deficit of \$3.4 billion in 1993, much larger than anticipated; the nation had a \$324 million surplus in 1992. The collapse of exports was caused primarily by problems in Hungary's largest export sector, agriculture: two years of drought and persistent uncertainty over land ownership after the breakup of cooperative farms.

Nevertheless, now is the time for optimism, says Bela Kadar, Hungary's minister of international economic relations. "We have traveled the most difficult part of the road to market institutions and the legal framework of a market economy," says Mr. Kadar. "We are on the threshold of a new phase in the business cycle."

Western goods continue to flood into a hungry market, with a doubling of imports from the European Union, as demand in the Hungarian economy defies the recession. It has created a trade deficit, but these are the first signs of economic recovery, says Peter Akos Bod, governor of the Hungarian National Bank.

In the first half of 1993, exports dropped 27 percent. The latest figure for 1993, however, is only 17 percent, due in part to a mid-September policy package that included a devaluation of the forint and provided for the establishment of an Exim bank.

"Hungarian entrepreneurs got the message that international competitiveness will be considered a priority by the government," says Mr. Kadar.

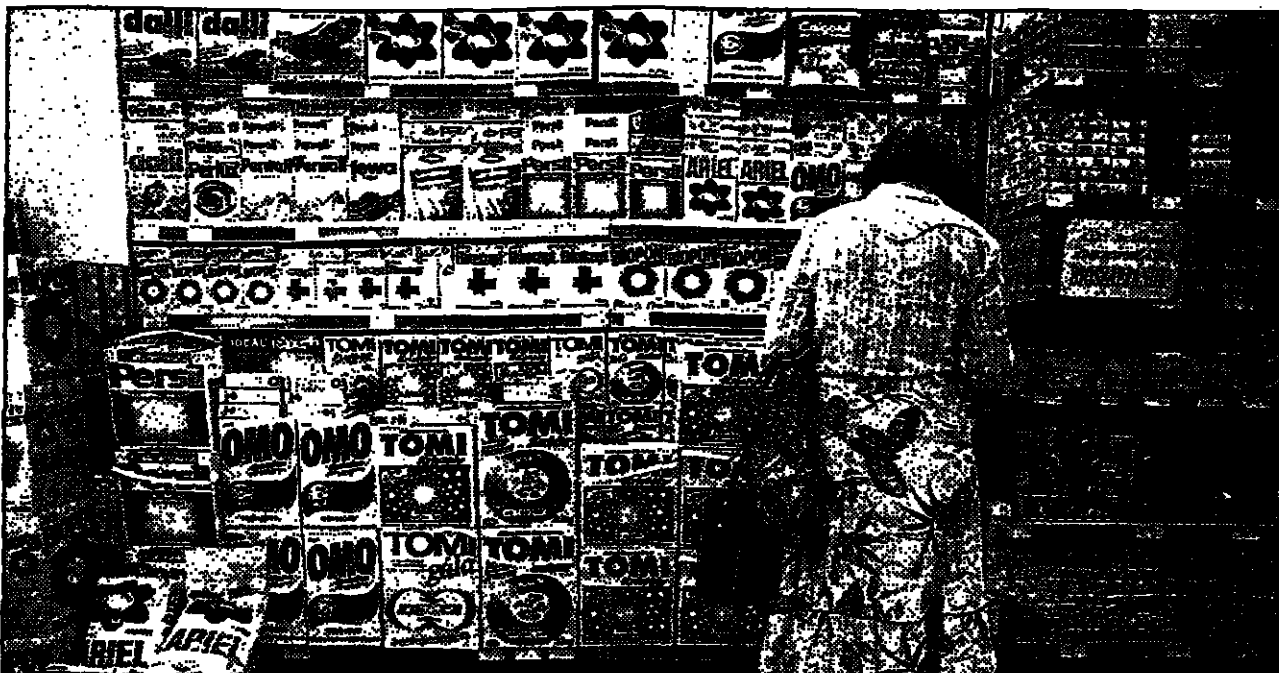
Hungarian business has gone through a revolution over the past four years. Production targeted at Soviet and East European markets — where quantity, not quality, counted — has had to be upgraded to suit more demanding tastes. Production is now aimed primarily at Germany, Switzerland and Austria. Small and medium-sized companies are boosting exports. These smaller businesses now account for around 40 percent of Hungary's gross domestic product.

In 1989, over half of Hungary's exports were transacted in nonconvertible currencies, but by 1992 all foreign trade was convertible. Exports to Western industrial countries amounted to 41 percent in 1989. Hungary, however, retargeted its exports, and by 1992, 71 percent of Hungarian exports went to the West — and this despite the recession in Germany, Hungary's most important trading partner.

At the same time, Hungary has achieved a considerable shift in product orientation, away from heavy machinery toward consumer goods. Hungary is concentrating on sectors in which it has a lasting comparative advantage, such as food processing, pharmaceuticals and the manufacture of car components. In addition, new goods are being developed for export, these range from wild rice to vitamin tablets.

The problem for Hungarian exporters has been how to muscle into ever more competitive Western markets, but here, too, the future is looking brighter.

Under Hungary's association agreement with the European Union, 80 percent of industrial exports to the EU are



Decisions, decisions: At a Budapest supermarket, a wide selection of brands manufactured by leading multinationals.

free of tariffs and quota limits. Over the next three years, the remaining goods, including textiles, steel and most agricultural products, will also be freed of restrictions. An asymmetric arrangement gives Hungary an extra seven years to remove all similar barriers to EU imports.

Hungary's export industries had been unfamiliar with Western business practices. Previously, trading houses took care of the buying and selling side of the business, but suddenly Hungarian marketing managers had to acquire professional marketing skills overnight. To assist new businesses with the unfamiliar job of promoting themselves and locating business partners abroad, a matchmaking service is provided by the European Union Phare program, together with

the Investment Trade Development (ITD) agency. Contacts for customers or potential investors are passed on to Hungarian businesses eager to cut a new deal.

The Phare program, targeted at central Eastern Europe, also helps with training, technical assistance, credit guarantees and loan schemes, as well as skills transfer, right down to teaching entrepreneurs how to draw up a business plan.

This year, ITD Hungary is running a program to promote wine exports, which it hopes will serve as a blueprint for similar programs in other sectors, such as meat products, fruit and vegetables. In short, says ITD Hungary, its job is to convince the outside world that doing business with Hungary is smart. That job is getting easier. L.H.

FROM WINE TO MEDICINE, NEW EXPORTS

Under communism, the purpose of Hungarian wine production was to produce cheap and passable table wine for export to socialist sister states. As the region underwent changes, however, members of the Szolloskert Nagyredői cooperative in northwestern Hungary realized that was not where they wished their future to lie.

With a 40 million forint (\$380,000) bank loan, they invested in new technology to keep the temperature of the fermenting wine constant and to seal it to prevent oxidation. They quickly managed to produce wines such as cabernet sauvignon and Pinot gris of a standard suitable for the West European market. "We made very important technological innovations,

and the quality of wine made a substantial change toward the taste of Western Europeans," says Andras Nagy, president of the cooperative. "It tastes fresh, healthy and fruity, with a richer flavor of the grape in the wine."

Members of the cooperative still use traditional methods for their top-grade wines, such as the 1986 Harsleveli, which won the gold medal at the Bordeaux wine exhibition last year. Wine made for mass consumption with the new technology has also been faring well.

Through well-known British supermarket chains like Sainsbury's, Safeway and Asda, the cooperative sells 2 million bottles of wine a year. Of 10 million liters produced, 75 percent to 80 percent is exported. Last year, the income of the cooperative reached \$10

million dollars from both wine production and its deep-frozen fruit and vegetable business. In May, it plans to hit the U.S. market.

It is not just in wine production that Hungarians excel.

From Professor Rubik to Ede Teller, Hungarians have made a name for themselves in science. Software designer Graphisoft's computer-aided design program for architects is used all over the world. Hungarian chemical

company Chinoin has an 80-year tradition of research and development in medical drugs.

With the support of their new French partner Sanofi, it is now further developing its compound Jumes/Deprenyl for the treatment of Parkinson's disease; the compound is already on the U.S. and West European markets. Chinoin is also developing drugs to treat asthma and epilepsy. L.H.

HIGH MARKS FOR STOCK EXCHANGE

Trading opportunities attract investors to a stock exchange, but well-enforced trading regulations keep them there. Using this stock-exchange maxim as a guide, the Budapest Stock Exchange's recent crackdown on insider trading — made on the basis of newly promulgated laws — will have a greater long-term impact than the wave of "boomtown" figures attracting international investors to the exchange.

Emerging stock markets are currently the rage among international investors, and their interest has pushed stock exchanges from Warsaw to Bangkok to all-time highs. If anything, the Budapest Stock Exchange's recent 83-percent rise in its index made it something of a laggard, but this gets it high marks from institutional investors. In a mid-March report, the exchange's current average price/earnings ratio of around 19 was called "realistic" and "a good bet for future investment." The exchange's chairman, Lajos Bokros, calls current trading levels "high but stable."

Also earning the investors' approval have been the implementation in February of strict insider-trading laws and the introduction of an electronic shares and securities trading system.

Though still relatively small, with total nominal capitalization of the 71 issues traded on it amounting to some \$5.5 billion, the exchange plays a key role in the country's rapidly developing private sector. For investors, the exchange functions as a "hedge against currency devaluations" as its listings reflect internationally established values.

As a result of this increasing use, turnover exchange

jumped 450 percent in 1993. Some 60 percent of the exchange's daily turnover comes from abroad, much of that through mutual funds set up to channel that inter-

est. This interest has spawned articles on "how to invest in Hungarian stocks" in international business magazines. These feature the merits of Pick (a salami

manufacturer), Fotex (photographic developing, optics and consumer goods), Novotrade (trading) and other current exchange stars. T.S.

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SALAMI MARRIAGE - THE HUNGARIAN WAY

A century of competition ended at the beginning of April with the marriage of two Hungarian salami companies, Pick and Herz.

After more than a year of eastward Pick Szeged, situated in the southern Hungarian town of Szeged, purchased the ownership rights in the Budapest-based Herz for \$9 million. The former meat producer in Hungary and the best-known in the region. All that's missing is the official approval of the Cartel Office, required because quality salami production will be concentrated in a single company.

It was not enough, the news of the merger has not increased interest in the Budapest Stock Exchange and the Vienna telephone trading. This is not the first time that Pick has defied the experts' predictions. Pick was formed at the end of 1992 with 2.27 billion forints (\$22.7 million) in prime capital, and 113,500 of its shares, each with a face value of 1,000 forints, were offered for compensation vouchers. At the time, few believed that Pick would succeed. If its shares, 150,000 went to domestic institutional investors through Pick's sale, 836,000 were offered exclusively to foreign institutional investors and 100,000 were put up for public subscription. Compensation voucher holders, who were usually extremely nervous about the share, the price was highly advantageous; those who purchased got to get the

securities received a Pick share for a compensation voucher with a face value of 1,000 forints.

As introduced to the stock exchange on Dec. 21, 1992, was a success, and the James Cook company, led in Hungary by Zsigmond Jara, had no regrets about its decision to maintain the price of the share at 10 years. From then on, the price of Pick shares continued to rise, unimpeded, returning the somewhat gloomy forecasts of bankers who were concerned because the shares were paying only a 5 percent dividend and the generally low grade on the Budapest Stock Exchange in the spring of 1992. Then Pick shares began to rise after a sudden halt. Starting at 1,000 forints, the price climbed to 10,000 forints by April 1993, at the stock exchange was saying monthly amounts that it would go no further. Their predictions and came true at the time when the European Union opened several restrictions against products from Hungary. Consumers did not desert Pick salami, however, and maintained the market time and again. The result was did not apply specifically to salami, but salami was right: that the market

In the meantime, the company has dramatically increased its profits. Salami Varsanyi, executive manager of Pick Szeged, said he looked forward to billion forints in 1993. Perhaps also had an effect on the price of the shares.

Postbank Securities Trading and Investment believes that the price has

been maintained primarily by the demand of foreign investors. This view is supported by the fact that Pick's shares have held the same high position in the index of the Budapest Stock Exchange and London Stock Exchange.

In late 1992, the company's shares were sold at a price of 10 forints. Since then, the company's shares have risen to 10,000 forints, a 1,000 percent increase. The company's shares are now being sold at a price of 10,000 forints, a 1,000 percent increase.

Even the supply did not limit the price. The value of a Pick share began to exceed 100,000 forints in November, when a 10 percent increase in the company's shares was announced. The company's shares were sold at a price of 10,000 forints, a 1,000 percent increase. The company's shares are now being sold at a price of 10,000 forints, a 1,000 percent increase.

Pick's history shows that its shares are a high investment. The company's shares are now being sold at a price of 10,000 forints, a 1,000 percent increase. The company's shares are now being sold at a price of 10,000 forints, a 1,000 percent increase.

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THE FINEST IN EUROPEAN HOSPITALITY

BUILDING A PRIVATE SECTOR IN HUNGARY

The State Property Agency's Privatization Program

Since 1990, the State Property Agency has privatized some 644 companies, of which 183 have been partial privatizations. The SPA privatizations have brought in just under \$2 billion, of which \$1.41 billion has been on a direct basis (non-credit or compensation coupons). Some 531 companies and stakes in the 183 partially privatized companies remain to be sold. The SPA's current holdings are worth nearly \$4 billion.

A Program for Every Kind of Investor

Non-Hungarian Investors

In 1993, foreign companies and individuals took stakes worth \$250 million in SPA companies, accounting for some 33 percent of all revenues received by the agency. To date, 356 foreign investors have spent some \$926 million for stakes in 421 companies. Not surprisingly, Austria and Germany are the two largest investors, accounting for more than 40 percent of total sale proceeds. Other major investing communities are the United States, the Netherlands, France and Britain.

Major Investors

The SPA has successively introduced some of the country's best-performing companies – including Pick, Zalakeramia, Domus, Primagaz and Globus – to the Budapest Stock Exchange, creating "instant blue chips." These are now staples of institutional investors' portfolios.

Owner-Operators and MBOs

To date, 9,314 retail and service outlets have been reprivatized, often sold to their former owners or current operators, in transactions worth \$370 million. An increasing number of management buy-outs (MBOs) are being financed by special credit facilities set up for that purpose. In 1993, some \$217 million was authorized for MBOs, more than double the previous year's figure.

Company Personnel

To date, "employee stock-ownership plans" (ESOPs) have taken equity stakes in 148 companies and properties worth a total of \$311 million. Some 20,000 persons currently hold stakes in ESOP programs.

Domestic Private Investors

Through two programs, the SPA has encouraged the building of a broad base of individual shareholders in its privatized companies.

Compensatory coupons have been issued to 1.3 million Hungarians who had suffered expropriation or persecution. The total market worth of these coupons currently amounts to \$800 million. To date, the SPA has redeemed compensation coupons worth \$197 million in privatized assets. The SPA has organized special swaps of shares for coupons, granted coupon holders top priority for newly issued shares and encouraged the formation of coupon-based joint stock investment vehicles.

A deferred payment scheme has just been launched. In it, private investors can purchase shares worth up to \$1,000 (after paying a nominal registration fee) on the basis of a government-supplied interest-free loan, then take up to five years to pay it back. An initial \$40 million tranche of shares in four blue chips is currently being offered under the scheme, with some \$120 million worth of shares in 70 other companies to follow.

SPA and Entrepreneurs Fuel Free-Market Economy

Before they have sent out their first tenders or printed a single catalogue, privatization agencies are often deep into two uphill battles. The first is overcoming local corporate management's reluctance to leave the safe harbor of public-sector ownership; the second, convincing international companies to consider the idea of investing in the agency's particular country.

These battles were never waged in Hungary. After more than two decades of "autonomous operations" under the Kadar regime, the country's nascent companies and their executives were highly familiar with the tenets of capitalism and eager to give them a full-scale test. Through their dealings with these companies, the world's business community knew Hungary's economy and was aware of its underlying strengths: high levels of education and qualification, coupled with an innate interest in entrepreneurial activities.

In the immediate aftermath of 1989, many international companies were therefore willing to take a good look at Hungary and to consider working with its enterprising companies. Thanks to the events unfolding in the post-revolutionary period, the international companies liked what they saw. Not only did the country quickly set up a democratic regime, but the elected coalition also has managed to serve out its term – something of an accomplishment in the Central European region. Equally gratifying was the Hungarians' wholehearted support of their new free-market economy. This has been evidenced by the founding of more than 500,000 businesses over the past four years.

One event that confirmed this initial positive impression was the founding of the State Property Agency in 1990. According to Tibor Pongracz, state secretary for privatization and the agency's chairman, the SPA was set up at a key moment in the country's move into the private sector.

"A lack of interest in privatization was not the country's problem," he says. "Quite the opposite. In the pre-SPA period, there was a

wave of 'on-the-spot' privatization as everyone rushed to get their own particular piece of the Hungarian economy, be it the local pharmacy or some of our largest companies."

The legacy of these "instantaneous privatizations," according to Mr. Pongracz, often was companies and properties sold under value, or at unrealistic terms and conditions, resulting in nonviable ownership structures.

This "rather chaotic situation" threatened to dissipate the country's store of economic goodwill.

The SPA stepped in and brought order to the country's privatization efforts. First, the agency organized itself. It catalogued the portfolio of companies entrusted to it and later put that information into the agency's computers for use by its specialist departments. Next, the agency used sound business principles to organize the portion of the country's privatization program entrusted to it.

The results have been impressive. In just four years, the SPA has partially or entirely privatized more than half the companies originally entrusted to it. Its cumulative sales roughly equal the value of assets still in its possession. According to Janos Hatvani Szabo, the SPA's managing director, the agency is now looking forward to completing its main operative phase by the end of 1996.

The SPA's most important accomplishment is that by adapting proven instrumentalities from other privatizers and devising a number of its own, it managed to recruit all constituent elements of the country's economy into the privatization process. It then assembled these elements, on a company-by-company basis, into corporate ownership and management.

These features include the entire price approach employed by Germany's Treuhandanstalt, in which a potential purchaser's bid is evaluated on the basis not only of cash offered, but also of jobs secured, investment commitments and the feasibility of its future operating strategy for

the company. Also now in wide use is the Treuhand's open-tender process, in which all potential purchasers enjoy the same access to information and bidding. This openness has proven especially attractive to international companies, which have invested \$926 million in the Hungarian economy through the SPA.

Many large companies privatized by the SPA have a core of major corporate investors and a broad base of corporate, private and employee shareholders. This "Anglo-American" corporate look is no accident.

Under the auspices of the SPA, these companies have been constituted as joint stock companies and listed on the Budapest Stock Exchange. Commenting on the fruits of this "pro-listing" approach, Lajos Bokros, the exchange's chairman, says: "It is a situation very reminiscent of that in Britain or in the United States, in which the country's stock and security exchanges are the primary venue of business transaction."

Also featuring the same look are the employee stock-ownership plans (ESOPs) brought into being in conjunction with privatization. "An equity stake translates into a personal stake in the company's future," says Mr. Pongracz, explaining the idea behind the introduction of schemes that allow employees to purchase stock at a reduced price. These schemes are complemented by the recently launched "Small Shareholders' Plan," in which private investors receive governmental credits to purchase stock.

"Sometimes, the SPA's job is more that of a guide than that of a privatization engineer," adds Mr. Hatvani. "Our job is often to help fully functioning companies with plans of operation find their way to the private sector."

This process, called "self-privatization," is uniquely Hungarian. To assist it, the SPA appoints expert consultants, who monitor the self-privatizers' adherence to generally applicable capital and cash-flow guidelines.

In line with the experience of most Central and East European countries, Hungary has

also undergone a massive wave of small-scale privatization, in which previous owners or current operators have assumed control over their beauty parlors, restaurants, pharmacies and farms. Many of these were paid for with coupons.

One major feature of the country's economy stems from what the Hungarians call the "Belgian model." State ownership of key industrial and public-goods producers via a central holding company is standard throughout Western Europe. Hungary's version is the State Holding Company. Set up in 1992 to complement the SPA's activities, the SHC currently holds stakes in 163 companies. As situations permit and depending on the government's perception of interest, the SHC strives to reduce its equity portion in its companies to either 5 percent, 25 percent or 50 percent through privatization. In 1993, the SHC realized revenues of \$900 million from this activity. Nearly all of that was from the sales of a minority stake in Hungary's MATAV telecommunications authority. For 1994, a tranche of equity in 28 major companies – including banks, pharmaceutical producers, and oil and gas producers – is being offered to the markets.

Viewed from the outside, the privatization system in all its forms and modalities seems well-constructed and operated. That impression is slightly misleading, senior SPA executives point out. As Mr. Pongracz emphasizes, it has taken "enormous amounts of effort and learning" to get the system running smoothly and efficiently.

"We have had our share of setbacks and made our share of mistakes," he says. "And this process has involved a lot of sacrifice. In the interest of accomplishing a true transformation, not just a 'paper shift' of ownership common to other privatization programs, we have been forced to let nonviable companies go into liquidation. Employees have been made redundant.

"But at the end of the day, Hungary will have a fully operational private sector, with market-proven companies. And that is what counts."

INVESTOR CONTACTS

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HUNGARY

HUNTING FOR TOURISTS (AND FISHING, TOO)

Hhe hunt is on for tourists in Hungary. Since 1991, tourism has been booming; the number of visitors in 1993 increased 20 percent over the previous year.

Last year, however, the government realized that this development had been

too haphazard, and a survey was commissioned to establish nationwide guidelines. Among the recommendations that have emerged are a call for the creation of an "attractive but realistic" tourism image for the country as a whole, with a juridical basis conforming to European Union regulations.

Emphasis is to be placed on extending the length of the tourist season, which hitherto has been limited mainly to the summer, incorporating areas largely untouched so far and raising the average amount of currency spent by visitors. In all of these respects, it was felt that the development of

hunting facilities in Hungary would be beneficial.

This is by no means a new development. Hunting, shooting and fishing have a long tradition in this European heartland; with the resumption of normal tourism conditions, there is greatly increased incentive for Westerners to indulge in the country's game sports.

Not many European regions can match Hungary's stock of game. The world's best assortment of deer - red deer and fallow deer - can be stalked in the south of the country. Of the last nine record antlers, five were bagged in Hungary. Lesser game - particularly pheasant, woodcock, waterfowl and hare - is prolific here as well. Most of the stag population lives west of the Danube; the best examples are found between Lake Balaton and the Slovene-Croatian frontier - in the Mecsek hills and Gemenc forest, for instance.

For roe deer (an estimated 250,000 head in Hungary), the best hunting fields are along the rivers Tisza and Koros in the east of the country as well as on the Great Hungarian Plain (Alfold). The roebuck kill tradi-

tionally begins on May 1 and continues throughout the summer, when it can be combined with shooting wild boar during the cornfield mowing, although there is such an abundance of this game that they can be hunted year-round.

Newer territories that are coming into fashion are the Pilis woods (only half an hour's drive north of Budapest) and the Matra and Bükk hills in the northeast, where mouflon can be spotted with the aid of local hunters. The latter should be contacted, in advance, through the intermediary of MAVAD, the 60-year old Hungarian Game Conservancy Company, at Uri utca 39, H-1014 Budapest, which will also handle requests from those who wish to import their own rifles, shotguns and ammunition.

For anglers, fishing licenses can be easily obtained on the spot. The best area to head for is Balaton, the largest lake in Central Europe, where the main catch is *fogas* (the delicious local pike-perch), sheat-fish and carp. The closed season for fishing extends from April 20 to May 20.

David Hermges



Preparing for Expo '96

GYOR: SURPRISING GEM IN HUNGARY

Roughly halfway between Budapest and Vienna, drivers who are forced to leave the unfinished M1-highway may find themselves crawling through the county town of Győr - and be tempted to take a break. It would be a wise decision. Although renowned for the industry on its outskirts (diesel-locomotives, farm machinery, textiles and confectionery/candy), Győr is a unique delight. Its old Baroque center, now being lovingly restored, begins barely 100 meters (330 feet) away from the main thorough road.

The 11th-century cathedral on Chapter Hill possesses one of the most prized pieces of medieval Hungarian goldsmith's work, the silver-gilt bust of King Ladislas. Down below, at the point where a branch of the Danube joins the River Rába, the fish market is likely to have farmers extolling their choice fattened geese.

Among the town's 170 designated historic monuments is a former Carmelite monastery, now functioning as a luxury hotel with gourmet restaurant. Not far away, a Rococo town palace, its facade intact, has been transformed inside into a casino under joint Austrian and Hungarian auspices. It became the third casino in Hungary, where gambling is possible in the country's own currency, the forint.

The arts are extensively catered to in Győr, with an International Biennial of Graphics (the next one takes place in 1995). From April 26 to May 1 this year, an International Festival of the Visual Arts "Mediawave" is being held for the second time; the festival covers film, video and photography. The town's large modern Kistaludy Opera House is home to the famed Győr Ballet Company.

D.H.

Hungary is situated almost exactly in the middle of the European continent. The vast majority of the land is low-lying, consisting of a sizable area of flat land known as the Alföld or Great Plain in the central, south central and eastern parts of the country. Through the country flow two major rivers, the Danube and the Tisza; Hungary has Central Europe's largest lake, Lake Balaton.

Area: 93,034 square kilometers (36,307 square miles)
Population: 10.5 million
Capital: Budapest, pop. 2 million.
Major cities: Debrecen, pop. 212,000; Miskolc, pop. 196,000; Szeged, pop. 175,000.
Ethnic Populations: About 90-percent Hungarian. Groups of Croats, Germans, Gypsies, Slovaks, Slovenians, Serbians, Romanians and others.

HUNGARY: FACTS AND FIGURES

make up the remaining 10 percent.
Religions: Roman Catholic, 60 percent. Reformed Protestant, 20 percent.
Language: Hungarian.
Land use: 70 percent of land cultivated for agriculture.
Climate: Continental climate, with warm summers and cold winters. Average January temperature in

Budapest is 0 degrees Celsius (32 degrees Fahrenheit) and in July about 23 degrees Celsius (73 degrees Fahrenheit). Annual rainfall is about 652 millimeters.
Currency: Forints.
Government: A parliamentary republic. Last elections for the 386-seat National Assembly were in 1990. Upcoming elections in May.

Useful Addresses:

Tourism
Tourinform (Hungarian National Tourist Information Bureau)
H-1052 Budapest
Sütlő utca. 2
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IBUSZ Accommodations Office
H-1052 Budapest
Petőfi tér 3
Tel.: (36-1) 1185-707
Business
Hungarian Investment and Trade Development Company
H-1051 Budapest

Dorottya u. 4
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American Chamber of Commerce
H-1068 Budapest
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British Chamber of Commerce
H-1011 Budapest
Iskola u. 37/a
Tel.: (36-1) 201-9142
German Chamber of Commerce
H-1143 Budapest
Stefánia út 99
Tel.: (36-1) 252-2478
S.S.W.

HEALTHY HOLIDAYS: CONGRESS AND CURES

Quincun, interpreted as meaning "rich waters," was the name given by the Romans to their settlement on the right bank of the River Danube, upstream from where the Hungarian capital now stands. There is ample archaeological evidence that the legionnaires benefited from the healthy properties of thermal springs in the area - and the tradition has been maintained to the present day.

During the 15th and 17th centuries, the baths in Buda were of central importance to the Turkish occupiers. Today's tourist managers have turned the waters to good use in their incentive travel schemes, along the lines of "Come to the Congress and Combine it with a Cure."

There is indeed a good selection of convention facilities in the city, including the custom-built Budapest Congress Center (the latest extension to which was built only last year), just 10 minutes from the middle of town, and the imposing Royal Buda Palace overlooking the Danube.

Virtually the whole of Hungary is covered with a network of 22 cities and towns with mineral water and thermal springs claiming medicinal properties. Budapest heads the list - it is the only capital city in the world authorized to call itself a "spa town" and boasts no fewer than nine watering places.

Not quite the biggest, but certainly the most luxurious, are the thermal water pools (one each, indoor and outdoor) at Hotel Gellert. This is a traditional establishment dating from the days of the Austro-Hungarian monarchy. Last year, to mark its 75th anniversary, it was given a thorough facelift.

The Gellert, open year-round to the public, also offers special incentive packages during summer for up to 1,500 persons at a time in the form of a "Poolside Party," including dinner and dancing. Recommended clothing: collar and tie,

cocktail dress and/or swimsuit.

An older bathing establishment, dating from the days of the Turkish occupation, puts on a show for up to 50 guests (men only) under the title "Suleiman Pasha's Harem." Recommended clothing: towels optional. Moving westward to the Lake Balaton holiday area, there is a range of several renowned spas, headed on the northwest shore by Hévíz, with the largest natural hot-water spring in Europe. Outdoor bathing is possible throughout the year. Even closer to the Austri-



The Hévíz spa along Lake Balaton.

an border and thus a favorite resort for Viennese health seekers is Hungary's youngest spa, Buk, where a rich thermal spring was discovered by chance during unsuccessful drilling for oil. A four-star hotel with exten-

sive medicinal facilities has now been built in this rather isolated spot. Buk is only a short drive away, by horse cab if desired, to the medieval picture-book town of Keszeg, once a frontier fortress.

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PARTNER COUNTRY HUNGARY AT THE HANNOVER FAIR '94

Central Hungarian lectures at the Convention Center/TCM/

20th April 1994, 2:00 p.m. - 5:00 p.m. in Conference Room 3 A

2:00 p.m. - 2:45 p.m. Development of German-Hungarian economic relations
2:45 p.m. - 3:05 p.m. Hungarian efforts to promote free trade
3:30 p.m. - 4:00 p.m. Success stories
4:00 p.m. - 4:20 p.m. Hungary as a target country for investments
4:20 p.m. - 4:40 p.m. Privatization - an alternative to foreign capital investment in Hungary

21st April 1994, 2:00 p.m. - 6:00 p.m. in Conference Room 13/14

I. Theme: National Committee for Technological Development/OMFB/

2:00 p.m. - 2:20 p.m. Hungarian innovations - tasks of the OMFB
2:20 p.m. - 2:40 p.m. Scientific and technological cooperation - tasks of the OMFB

II. Theme: Ministry of Industry and Trade

2:40 p.m. - 3:00 p.m. Role of industry in the Hungarian economy. Current industry-political tasks of the Government.
3:00 p.m. - 3:20 p.m. Present situation and perspectives on German-Hungarian industrial relations

III. Theme: Ministry of Culture and Education

3:50 p.m. - 4:10 p.m. Making Hungary's higher education system match the European standard - one of the primary objectives of the Hungarian Government.
4:10 p.m. - 4:30 p.m. Scientific research and technical development in Hungarian universities

IV. Theme: German-Hungarian Chamber of Industry and Trade

4:30 p.m. - 4:50 p.m. Current business position in Hungary.
4:50 p.m. - 5:10 p.m. Activities of the Hungarian Chamber of Innovations

UNGARN



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